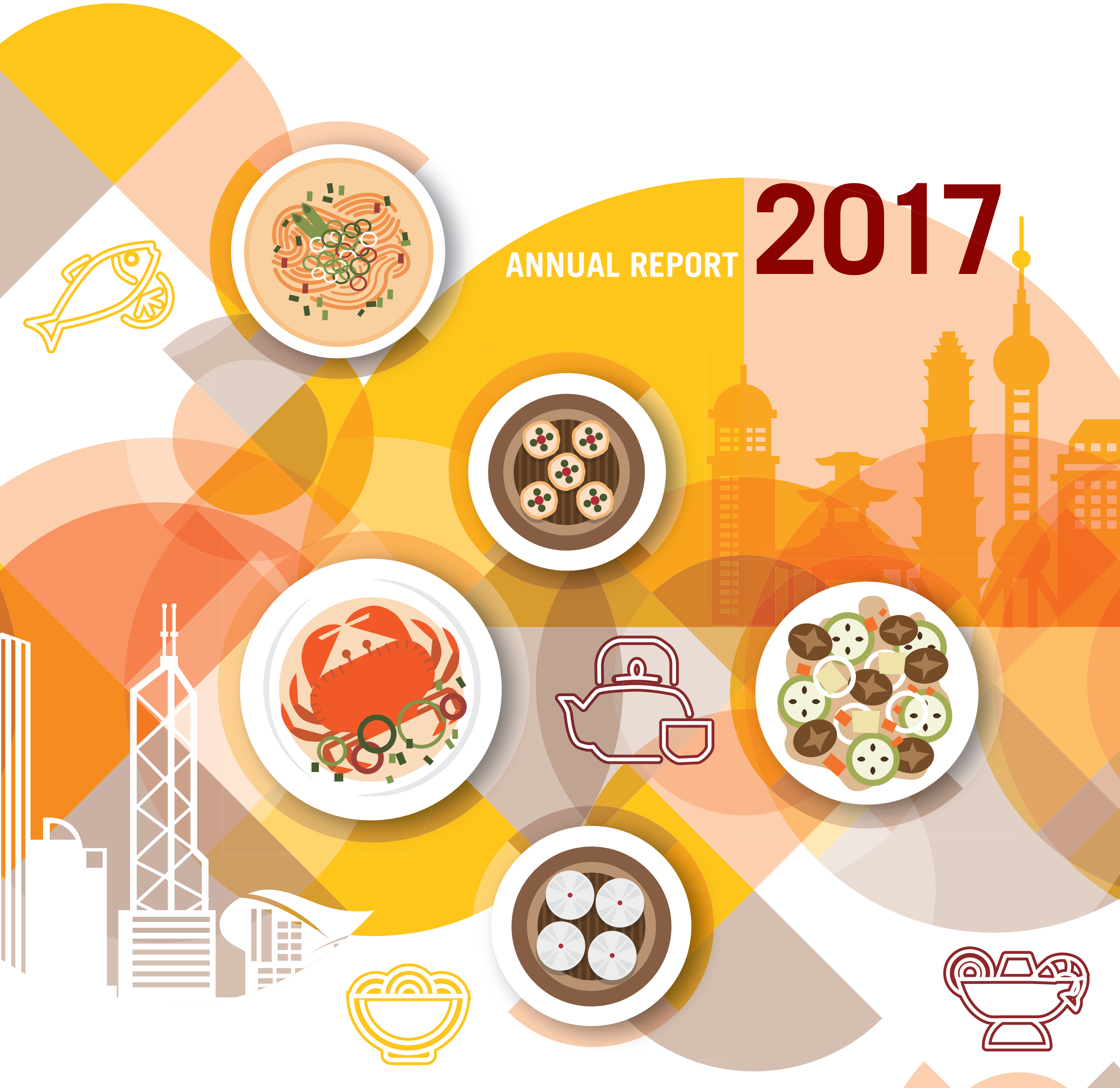
# ANNUAL REPORT 2017

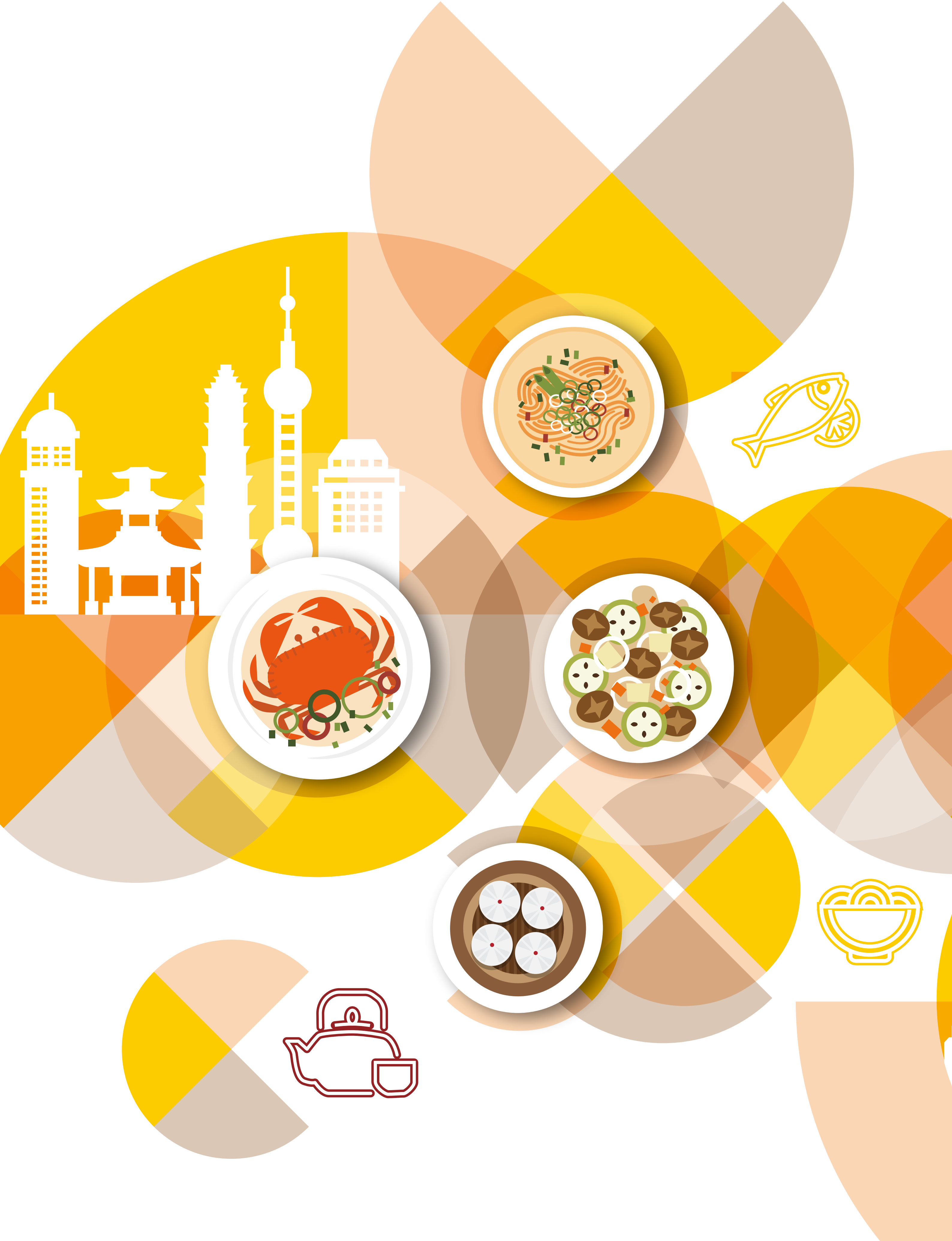


稻香集團

# 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



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# CORPORATE INFORMATION

## Board of Directors

### EXECUTIVE DIRECTORS

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

### NON-EXECUTIVE DIRECTORS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## Company Secretary

Mr. Leung Yiu Chun *FCCA, FCPA*

## Authorised Representatives

Mr. Leung Yiu Chun
Mr. Ho Yuen Wah

## Members of Audit Committee

Mr. Mak Hing Keung, Thomas *(Chairman)*
Professor Chan Chi Fai, Andrew
Mr. Chan Yue Kwong, Michael

## Members of Nomination Committee

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

## Members of Remuneration Committee

Mr. Ng Yat Cheung *(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. 18 Dai Fat Street, Tai Po Industrial Estate
Tai Po, New Territories, Hong Kong

## Principal Share Registrar

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, 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

Bangkok Bank, Hong Kong Branch
Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
BNP Paribas, Hong Kong Branch
Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

## Principal Auditors

Ernst & Young

## Stock Code

573

## Website

www.taoheung.com.hk

# FINANCIAL HIGHLIGHTS AND CALENDAR

| Key Financial Ratios | Notes | 2017 HK$'000 | 2016 HK$'000 | Increase/ (Decrease) in % |
|---|---|---|---|---|
| **Performance** | | | | |
| Revenue | | **4,025,280** | 4,287,166 | (6.1%) |
| Profit attributable to owners of the parent | | **89,082** | 177,845 | (49.9%) |
| Gross profit margin | | **9.7%** | 12.2% | (20.5%) |
| Net profit margin | 1 | **2.2%** | 4.1% | (46.3%) |
| **Per Share Data** | | **HK cents** | HK cents | |
| Earnings per share | | | | |
| – Basic | | **8.76** | 17.47 | (49.9%) |
| – Dilutive | | **8.76** | 17.46 | (49.8%) |
| Interim dividend per share | | **5.50** | 6.00 | (8.3%) |
| Proposed special dividend per share | | **–** | 4.00 | (100%) |
| Proposed final dividend per share | | **6.00** | 6.00 | – |

| | Notes | 2017 HK$'000 | 2016 HK$'000 | Increase/ (Decrease) in % |
|---|---|---|---|---|
| Total assets | | **2,569,412** | 2,559,213 | 0.4% |
| Net assets | | **1,741,237** | 1,751,488 | (0.6%) |
| Cash and cash equivalents | | **530,471** | 492,449 | 7.7% |
| Net cash | 2 | **331,887** | 304,423 | 9.0% |
| **Liquidity and Gearing** | | | | |
| Current ratio | 3 | **1.3** | 1.2 | 8.3% |
| Quick ratio | 4 | **1.1** | 1.0 | 10.0% |
| Gearing ratio | 5 | **11.4%** | 10.8% | 5.6% |
| **Per Share Data** | | **HK cents** | HK cents | |
| Net assets per share | 6 | **171.28** | 172.29 | (0.6%) |
| Net cash per share | 7 | **32.65** | 29.94 | 9.1% |

Notes:

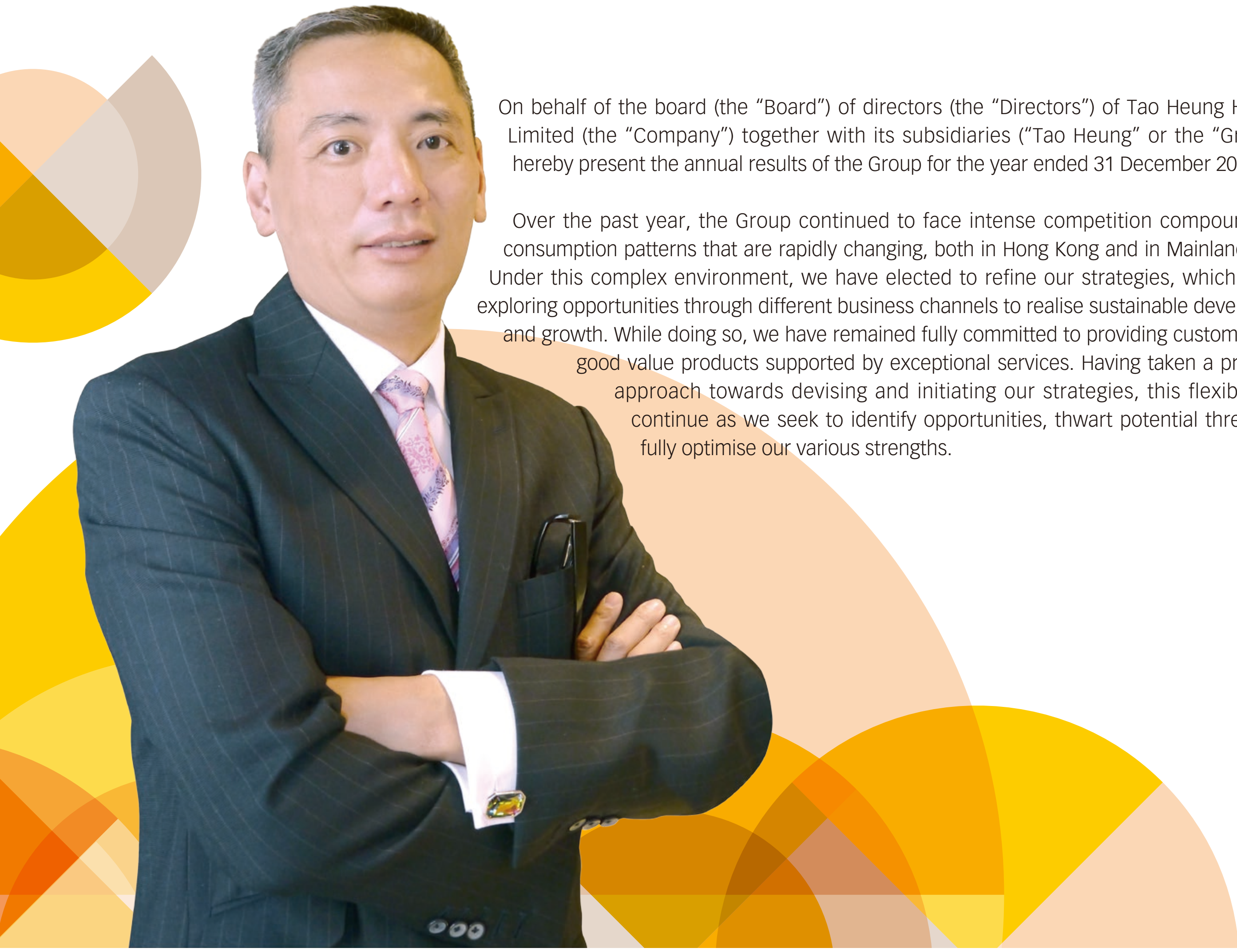
1. Net profit margin is calculated as net profit attributable to owners of the parent divided by revenue.
2. Net cash is cash and cash equivalents less interest-bearing bank borrowings.
3. Current ratio is calculated as current assets divided by current liabilities.
4. Quick ratio is calculated as current assets less inventories divided by current liabilities.
5. Gearing ratio is calculated at total debt (interest-bearing bank borrowings and finance lease payable) divided by total equity attributable to owners of the parent.
6. Net assets per share is calculated based on the number of 1,016,611,000 shares (2016: 1,016,611,000 shares).
7. Net cash per share is calculated based on the number of 1,016,611,000 shares (2016: 1,016,611,000 shares).

# FINANCIAL HIGHLIGHTS AND CALENDAR

## CALENDAR

| | |
|---|---|
| **24 August 2017** | Announcement of interim results |
| **22 March 2018** | Announcement of annual results |
| **23 April 2018** | Despatch of annual report to shareholders |
| | Closure of register of members |
| **18 May 2018 to 24 May 2018** | for attending the annual general meeting |
| **31 May 2018** | for proposed final dividend |
| **24 May 2018** | Annual general meeting |
| **Dividends** | |
| **12 October 2017** | Interim: HK5.50 cents per share paid |
| **12 June 2018** | Final: HK6.00 cents per share payable |

# CHAIRMAN'S STATEMENT



On behalf of the board (the "Board") of directors (the "Directors") of Tao Heung Holdings Limited (the "Company") together with its subsidiaries ("Tao Heung" or the "Group"), I hereby present the annual results of the Group for the year ended 31 December 2017.

Over the past year, the Group continued to face intense competition compounded by consumption patterns that are rapidly changing, both in Hong Kong and in Mainland China. Under this complex environment, we have elected to refine our strategies, which include exploring opportunities through different business channels to realise sustainable development and growth. While doing so, we have remained fully committed to providing customers with good value products supported by exceptional services. Having taken a pragmatic approach towards devising and initiating our strategies, this flexibility will continue as we seek to identify opportunities, thwart potential threats and fully optimise our various strengths.

## Upholding the Group's Five-year Business Plan

Kicked off last year, our four-pronged five-year plan to further the Group's development has commenced. Summed up by the acronym "MISS", which stands for ***Marketing, Innovation, Service and Succession***, this holistic approach has begun to take traction.

On the marketing front, we have continued to consolidate our business in Hong Kong while at the same time launched new promotional campaigns to sustain business performance. Among the campaigns introduced to broaden the Group's customer base is the "All you can eat hotpot" ("火鍋放題"), aimed directly at the youth segment, and during dinner hours. Our peripheral business also received our marketing efforts, with attention placed particularly on such products as festive food and pre-packaged items to diversify our revenue streams. In Mainland China, we sought to develop our O2O and e-commerce channels to attract younger customers as well as reach out to more regions of the country. We nonetheless remained resolute in our commitment to advancing the Group's stature so as to become the preferred brand for banquets.

# CHAIRMAN'S STATEMENT

Innovation has been and will continue to underpin our business development. In continuing to lead the way for other Chinese restaurant operators to follow, the Group has in recent years been introducing such innovations as the "Robot Waiter", "Vegetable Frying Machine" and "Seafood Conveying Belt". Moreover, we have begun introducing e-payment systems, such as WeChat Pay ("微信支付") and Alipay ("支付寶") that are now available at all of our Mainland China and Hong Kong branches. We have also been co-operating with a local distributor to support our online sales, we are thus able to reach customers across the country. To bolster both our restaurant and retail business, we also launched an e-membership system to ensure customers are kept abreast of relevant promotions and developments.

Service wise, we fully understand that to attract customers the Group must provide the best services possible. We have consequently made significant investments to enhance service quality during the year. This is evident by our incentive programme, which seeks to motivate our staff to give their all so as to raise service standards to new heights – both frontline and backend. To evaluate the effectiveness of our efforts, specifically frontline, we have employed "mystery customers" to visit our restaurants and gauge the services provided. Based on their findings, and the Group's recent garnering of the Service and Courtesy Award (Retail) from the Hong Kong Retail Management Association, it would appear that we are indeed moving in the right direction.

To ensure long-term business growth, we realise that succession must also be part of our development process. Last year, we consequently revised our management hierarchy through the division of operations into eight units based on brands and business functions. This has been done to promote decentralisation, with the goal of encouraging growth among employees by enabling them to take on more responsibilities which in turn lead to quicker decision making. Our directors and managers have been given direct responsibility for ensuring the profitability of their respective business segment, including the quality of products and services offered. Underpinning this decentralisation effort are incentive schemes, apprenticeship programmes and appraisal system to attract and retain talent, strengthen camaraderie, encourage personal growth and increase employees' sense of belonging with the Group, which ultimately leads to a win-win situation for all involved.

Going forward, we will continue to employ our MISS strategy to enhance key areas of operation. We are fully confident that the path Tao Heung has embarked on is the right one, and will lead the Group to long-term growth.

While pursuing our business goals with renewed vigour, we will at the same time direct similar energies towards contributing to society as this is aligns with our goal of achieving growth on a human level. During the past year, apart from continuously sponsoring Tao Heung Food Culture and Education Foundation in preserving the culture and history of the food and beverage industry and raising the professional management standards of the entire food catering sector, we also involved in a number of worthwhile causes, including the "Love on the Table" project, organised by China Charity Federation. We were immensely honoured to receive the "Caring Restaurant" plaque and Honorary Certificate from the Federation, and will use such recognition as additional motivation for contributing to society in the future.

## Appreciation

On behalf of the Board, I would like to extend my gratitude to everyone who have had a direct hand in supporting Tao Heung's development over the past year, from senior management to front line staff. I wish to also thank our business associates, customers and shareholders for their wholehearted support. Through all of our patrons' ongoing support, I am confident that Tao Heung will strengthen its position in both Hong Kong and Mainland China, and become the first choice for people from all walks of life.

**Chung Wai Ping**
*Chairman*

Hong Kong
22 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2017. As at the latest financial year, both Mainland China and Hong Kong experienced stable economic growth. Though a positive development, the catering industry has nonetheless been engulfed in fierce competition. Under such an environment, the management has elected to place emphasis on strengthening service and product quality, which it trusts is the best means of attracting and maintaining the patronage of restaurant goers. Correspondingly, the Group has further invested in its workforce, increasing benefits for both frontline and back-office staff as well as creating a more appealing environment that contributes to better customer service and dining quality.

## Financial Results

As a result of a decline in outlets and contraction in same store sales, coupled by fierce market completion, the Group recorded total revenue of HK$4,025.3 million for the year ended 31 December 2017 versus HK$4,287.2 million in the preceding year. Owing to the aforementioned investment in the workforce which the management trusts will result in long-term gains for the Group. Profit attributable to owners of the parent declined to HK$89.1 million (2016: HK$177.8 million). Hong Kong continues to be the largest revenue contributor to the Group, accounting for 63.9% of the total revenue (2016: 64.8%) with the Mainland China operation accounting for 36.1% (2016: 35.2%).

The Board has proposed a final dividend of HK6.0 cents (2016: HK6.0 cents) per share. Together with an interim dividend of HK5.5 cents per share already paid (2016: HK6.0 cents), the total dividend will be HK11.5 cents (2016: HK16.0 cents which includes a special dividend of HK4.0 cents), which represents a dividend payout ratio of 131.2% (2016: 91.5%).

## Hong Kong Operations

The Hong Kong operations contributed HK$2,571.1 million (2016: HK$2,779.6 million) in revenue during the review year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) reached HK$196.5 million (2016: HK$293.7 million), with profit attributable to owners of the parent at HK$74.9 million (2016: HK$139.4 million).

Over the past year, competition has continued to intensify due in part to the entry of more diverse participants into the Hong Kong market. Among their target customers are millennials given their greater spending power, willingness to try new culinary delights, and preference for non-Chinese cuisine and specialty dining. In the face of such headwinds, the Group devised and employed a number of marketing strategies towards the latter part of 2017. These strategies resulted in an increase in same store sales in the fourth quarter, among which included restaurants that offered "all you can eat hot pot".

# MANAGEMENT DISCUSSION AND ANALYSIS

Besides delivering value to consumers, the Group has sought to instil a more lasting impression by way of providing exceptional service. Reflecting the seriousness by which it has taken up this matter, the Group has launched an All-Staff Service Promotion Programme to motivate employees so as to create a refreshing, customer-centric atmosphere at its restaurants. In order to gauge the results of the Programme, the Group has implemented customer surveys as well as 'mystery customers' who visit restaurants to appraise frontline service. A testament to the effectiveness of such efforts includes the recent garnering of the "Best Service Outlets" certificate of merit and winning an individual award in the Restaurants – Chinese Cuisine at Supervisory Level category of the 2017 Service & Courtesy Award, organised by the Hong Kong Retail Management Association.

In order to consolidate operations and increase its efficiency, a number of restaurants were closed or restructured during the review period. Consequently, the Group together with its associates operated a total of 62 restaurants as at the year ended 31 December 2017 (2016: 67 restaurants), including two RingerHut Japanese chain restaurants, one Taiwanese noodle shop and one T Café 1954 outlet.

A considerable amount of effort has gone into diversifying the Group's restaurant portfolio, the fruits of which include RingerHut and T Café 1954, both continuing to attract customers from different age groups. More recently, the Group's collaboration with Du Hsiao Yueh, a renowned Taiwanese noodle shop, has resulted in the establishment of its first restaurant in Hong Kong. Opened in Tsim Sha Tsui in June, the restaurant has achieved satisfactory results.

Progress has also been achieved in terms of expanding the Tai Cheong Bakery chain overseas. In the past year, the business successfully cracked the Singapore market, opening an outlet at the Takashima Department Store on Orchard Road – a prime location, complementing an outlet in Holland Village. The management believes the partnership that the Group has established in penetrating the Singapore market will result in additional revenue to the Group, and will examine more partnerships for entering into other foreign markets. By no means reducing its commitment to the Hong Kong market, the Group continues to have a solid presence in the city. As at financial year end, the Group together with its associates operated a total of 19 Tai Cheong outlets (2016: 25 shops). Furthermore, a rebranding exercise has recently been conducted to give Tai Cheong a new brand image.

In view of current developments in the local catering industry, the management have and will continue to place efforts on refurbishing and optimising the Group's restaurants. Rebranding will also be initiated with the goal of attracting younger customers, and will be supported by the introduction of more variety of dishes, which increases the competitiveness of the Group's restaurants in general. As well, the management will continue to explore various marketing strategies and possible collaborations with other retail brands to diversify product offerings.

## Mainland China Operations

Amid fierce competition, the Mainland China operations experienced a decline in revenue, slipping by 3.5% to HK$1,454.2 million (2016: HK$1,507.6 million). EBITDA consequently fell to HK$201.1 million (2016: HK$241.6 million), with profit attributable to owners of the parent amounting to HK$14.2 million (2016: HK$38.4 million).

The rise in competition was in part due to the departure of retail outlets from shopping malls – heavily impacted by online shopping, and in their place a saturation of restaurants. In the face of such developments, the management elected to introduce a greater variety of dishes that are not only appealing to the palette but also visually enticing, with this visual appeal extending to restaurant surroundings. The new restaurant opened in Longgang, Shenzhen after 31 December 2017 embodies this approach, offering delightful dishes and a unique ambience that includes a 4D projection system which enables the restaurant to take on different themes for banquets, appealing to the younger set.

# MANAGEMENT DISCUSSION AND ANALYSIS

Yet another example of the management's nonconformist approach towards combating competition is its integrated complex business model. Comprising a Chinese restaurant, self-owned supermarket, indoor children's playground, museums and shops that cover over 22,000 sq. m, this model has led to the creation of three complexes thus far, all of which have generated favourable returns. Targeted towards middle- to high-income families, the complexes also have parking facilities, thus ensuring convenient access by car.

Just as the management abides by its own set of rules towards combating competition, so too it has followed its own instincts in addressing the challenges posed by insufficient labour. The Group has elected to offer attractive remuneration packages and incentives to staff as a means of expressing appreciation and encouragement, which it trusts will be reciprocated by way of better services leading to greater customer satisfaction.

A further development that highlights the management's resolve to bolster the performance of the Mainland China operation is the integration of e-commerce, which includes enabling customers to conduct mobile ordering and payment via such platforms as Alipay and WeChat Pay. And e-commerce has also been leveraged to augment the wholesale business. Via channels including Tmall.com and JD.com, the Group has been able to distribute its packaged frozen food across the country, thus enhancing revenue contributions from the wholesale and retail operation. With takeout and delivery service being increasingly popular, here to the Group has capitalised on the Internet to launch its takeaway service, employing such platforms as Meituan (美團) and ele.me (餓了嗎) to reach customers.

During the review year, the Group opened two new restaurants and closed four establishments; hence it operates a total of 44 restaurants (2016: 46 restaurants) as at 31 December 2017. The Group also has 27 Bakerz 180 outlets (2016: 23 outlets) that generated combined revenue of HK$30.7 million (2016: HK$32.4 million) during the review year.

Given the Group's extensive presence in Mainland China, the management has sought to centralise operations as a means of raising efficiency and minimising costs. Fulfilling this role is the logistics centre in Dongguan, which also supports the Group's wholesale business that now includes online sales – a significant venture that helps mitigate the drawbacks associated with operating brick-and-mortar stores. The Dongguan logistics centre can thus be regarded as an important competitive advantage for the Group.

## Peripheral Business

The supermarket component of the peripheral business has performed encouragingly, accounting for a significant proportion of the segment's revenue. Yet another favourable development involves the Group's private label products, which is the direct result of experience gained in producing OEM products for the Hong Kong market. The said products have helped increase turnover of this segment and has also served as the foundation for supporting online sales, which facilitates the Group's ability to reach different regions of the country. With regard to corporate catering, which includes collaborating with airlines and other institutional caterers, the business has continued to perform well during the review year.

## Financial Resources and Liquidity

As at 31 December 2017, the Group's total assets increased to approximately HK$2,569.4 million (2016: approximately HK$2,559.2 million) while the total equity was approximately HK$1,741.2 million (2016: approximately HK$1,751.5 million).

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$530.5 million. After deducting total interest-bearing bank borrowings of approximately HK$198.6 million, the Group had a net cash surplus position of approximately HK$331.9 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2017, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total equity attributable to owners of the parent) was 11.4% (2016: 10.8%).

## Capital Expenditure

Capital expenditure for the year ended 31 December 2017 amounted to approximately HK$166.3 million and capital commitments as at 31 December 2017 amounted to approximately HK$22.9 million. The capital expenditure and capital commitments were mainly for the renovation of the Group's new and existing restaurants.

## Contingent Liabilities

As at 31 December 2017, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$19.0 million (2016: approximately HK$23.0 million).

## Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2017 were mostly denominated in Hong Kong Dollars ("HK$") and Renminbi ("RMB").

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

The Group currently does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposure and arranges foreign exchange forward contracts to minimize foreign currency exposure when appropriate.

## Human Resources

As at 31 December 2017, the Group had 8,194 employees. In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house as well as external training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted share option schemes, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 31 December 2017, there are 17,700,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Pledge of Assets

As at 31 December 2017, the Group pledged its bank deposits of approximately HK$13.8 million, leasehold land and buildings of approximately HK$85.5 million and investment properties of approximately HK$18.7 million to secure the banking facilities granted to the Group.

## Prospects

With fierce competition set to persist in both the Hong Kong and Mainland China catering sectors in the coming year, the management will maintain a tight rein on operations. At the same time it will implement various brand-specific strategies as well as continue to invest in staff training and incentive programmes. By also continuing to place efforts on consolidating and invigorating its core businesses in Hong Kong and Mainland China, the management aims to provide even better quality food and services, leading ultimately to sustained business growth.

While network expansion will remain part of the Group's business strategy, it will be conducted judiciously and mainly involving different operation modes to run restaurants in Mainland China and the opening of an additional Tai Cheong outlet in Hong Kong. The management will also actively explore opportunities for collaborations, such as entering into joint ventures that result in the introduction of renowned restaurants and diversification of revenue streams and clientele. A perfect example is Du Hsiao Yueh, the famous century-old Taiwanese restaurant, which is expected to open two additional restaurants in Hong Kong in the coming year.

In Mainland China, the Group will utilise its logistics centre in Dongguan to bolster its wholesale business, and will leverage both online and offline support, including the Group's various supermarkets. This will allow the Group to capitalise on the influence of e-commerce. At the same time, the management will continue to explore new online platforms to attract customers from different regions and to cater for their specific needs. Still another area that the Group will seek to develop is the digital membership programme that was introduced during the year, the objective of which is to bolster sales and to build loyalty among customers in Mainland China.

The management remains optimistic about business development overseas and will therefore continue to explore opportunities to expand beyond traditional markets. Through Tai Cheong Bakery, and in respect of its partner in Singapore, two more outlets are expected to open in the republic next year. On the horizon is the Malaysia market, which the Group will also seek to open a Tai Cheong outlet. Separately, the Group will look to collaborate with overseas or international caterers in order to explore more overseas opportunities for Tai Cheong.

Going forward, the management is confident in its ability to enhance operations supported by efforts at diversifying the existing business portfolio. By also leveraging the many competitive edges of the Group to grasp emerging opportunities, the management trusts that new revenue streams will be accessed leading to the rebound of performance and delivery of stable returns to the Group's shareholders.

# DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

Mr. Chung Wai Ping, MH, JP, aged 58, is an Executive Director and was appointed on 29 December 2005. Mr. Chung is the chairman of our Board and one of our founders. Mr. Chung is primarily responsible for overall corporate strategies, planning and business development. Mr. Chung established our Group in 1991 and has over 30 years of experience in the Chinese restaurant industry. Mr. Chung started his career as an apprentice cook of a local restaurant in Hong Kong from 1975 and became the Sous Chef of the Garden Hotel, Guangzhou, China in 1985. In 1991, Mr. Chung co-founded the first Tao Heung Seafood Hotpot Restaurant in Hong Kong. Mr. Chung is currently the Emeritus Honorary President of the Chinese Cuisine Management Association, the President of Association of Restaurant Managers and The Honorary Chairman of the China branch of Les Amis d'Escoffier Society Co. Mr. Chung won the Chief Executive Officer of the year (Hospitality) in 2003 organized by the Asia Pacific Customer Service Consortium, the Top Ten Man of the Time in Catering Industry in Yue-Gang-Ao held by the China Hospitality Association and Innovative entrepreneur of the Year organized by the Junior Chamber International Hong Kong in 2005. In 2006, Mr. Chung won the Capital Leader of Excellence 2006 organized by the "Capital" Magazine. Mr. Chung was given the VTC Honorary Fellow Awards and the VTC Honorary Degree of Doctorate in 2011 and 2014, respectively. Mr. Chung was also awarded a "Medal of Honour" by the HKSAR Government. Mr. Chung was appointed as Justice of Peace as at 30 June 2017. Mr. Chung is a cousin of Mr. Chung Ming Fat, who is the director of logistic management for Hong Kong and Mainland China of the Group.

Mr. Wong Ka Wing, aged 60, is an Executive Director and was appointed on 1 March 2007. Mr. Wong is one of our founders. Mr. Wong is primarily responsible for the overall operation of our Dongguan Logistics Centre. Mr. Wong has over 25 years of experience in the Chinese restaurant industry. Mr. Wong obtained a diploma in production and industry engineering from Hong Kong Polytechnic University.

Mr. Leung Yiu Chun, aged 47, is an Executive Director and was appointed on 9 March 2007. Mr. Leung is our Chief Executive Officer and is primarily responsible for our business development and overall strategic planning in finance, accounting, administration and marketing. Mr. Leung joined us in October 2002 as director of finance and began his career in the Chinese restaurant industry. Prior to joining us, Mr. Leung had over 10 years of experience in financial management and auditing for various Hong Kong listed companies, including Hop Hing Holdings Limited and Mirabell International Holdings Limited, the shares of both companies are listed on the Main Board of the Stock Exchange, and an international accounting firm. Mr. Leung holds a Master degree in Business Administration and a Bachelor degree of Arts (Honours) in Accountancy from the Hong Kong Polytechnic University. Mr. Leung is currently a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Ho Yuen Wah, aged 56, is an Executive Director and was appointed on 1 March 2007. Mr. Ho is the Deputy Chief Officer, Operation (China Division) and is primarily responsible for management and development of restaurants chain in Mainland China. Mr. Ho joined the Group in December 1991 as restaurant manager and was promoted to be the director of business management department in 2003. Mr. Ho has over 25 years of experience in the Chinese restaurant industry.

# DIRECTORS AND SENIOR MANAGEMENT

## Non-Executive Directors

Mr. Fong Siu Kwong, aged 60, 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 of The University of Hong Kong and a Master degree of Laws in Chinese and Comparative Law of the City University of Hong Kong. He was admitted as a solicitor in Hong Kong in 1996. Mr. Fong is currently a partner of Howell & Co., Solicitors.

Mr. Fong has over 36 years of legal experience. Mr. Fong is also the Honorary legal adviser to the Hong Kong Chinese Civil Servants' Association, HKU MACJS Alumni Association, Concentric Education Foundation (Hong Kong) Limited and Chinese History and Culture Enhancement Fund Limited.

Mr. Chan Yue Kwong, Michael, aged 66, is a Non-executive Director and was appointed on 6 March 2007. Besides, he was also appointed as a member of Nomination Committee on 9 June 2007 and a member of Audit Committee on 15 October 2008. Mr. Chan was the former Chairman and is currently the non-executive director of Cafe de Coral Holdings Limited, as well as an independent non-executive director of Starlite Holdings Limited, Pacific Textiles Holdings Limited, Tse Sui Luen Jewellery (International) Limited, Modern Dental Group Limited and Human Health Holdings Limited, all of which are listed on the Main Board of the Stock Exchange. Mr. Chan holds a double major degree in Sociology and Political Science, a Master degree in City Planning, an Honorary Doctorate degree in Business Administration, and is bestowed as Honorary Fellow from Lingnam University.

Mr. Chan has many years of professional experience in the public sector and over 30 years of managerial experience in the food and catering industry. He is currently the Adviser of the Quality Tourism Services Association, the Honorary Chairman of the Hong Kong Institute of Marketing and the Chairman of the Business Enterprise Management Centre of the Hong Kong Management Association. Mr. Chan is also a member of the Business Facilitation Advisory Committee appointed by the Hong Kong Special Administrative Region.

## Independent Non-Executive Directors

Professor Chan Chi Fai, Andrew, JP, aged 64, 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 Program in the CUHK. Professor Chan is also currently the Chairman of Cantonese Opera Advisory Committee. In addition, he is a Member of Social Enterprise Advisory Committee, Cantonese Opera Development Fund Advisory Committee, and Task Force for Review on Enhancement of Lump Sum Grant Subvention System. Besides, he is the Adviser of the Quality Tourism Services Association. Professor Chan has approximately 30 years of experience in the education industry.

# DIRECTORS AND SENIOR MANAGEMENT

Mr. Mak Hing Keung, Thomas, aged 55, is an Independent Non-executive Director and was appointed on 1 March 2007. Besides, he was also appointed as a member of both Audit Committee and Remuneration Committee on 9 June 2007. Mr. Mak holds a Bachelor degree of Commerce from Queen's University, Canada. Mr. Mak is a member of Chartered Professional Accountants of Canada, a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of Hong Kong Business Accountants Association. Mr. Mak is currently the chief financial officer of Fortunet e-Commerce Group Limited, a company listed on the Main Board. Mr. Mak was the chief operations officer of HF Financial Group (China) Limited. Prior to HF Financial Group (China) Limited, Mr. Mak was the chief financial officer and company secretary in various listed and private companies. Mr. Mak worked for an investment bank and Listing Division of 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. Mak is currently a non-executive director and member of audit committee and remuneration committee of Huge China Holdings Limited, a company listed on the Main Board. Mr. Mak is also the independent non-executive director, chairman of audit committee and member of remuneration committee of China Greenfresh Group Company Limited, a company listed on the Main Board. With effect from 17 July 2017, Mr. Mak resigned as the executive director of Millennium Pacific Group Holdings Limited, a company listed on the GEM Board.

Mr. Ng Yat Cheung, JP, aged 62, 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 and a member of Remuneration Committee on 21 May 2015. Mr. Ng holds an Associate degree in Arts in Business Data Processing from Chabot College in the United States. He holds offices as a director with a number of private companies which are principally engaged in technology, property development, finance and property holding. Mr. Ng is also an independent non-executive director of China Agri-Products Exchange Limited which is listed on the Main Board of the Stock Exchange.

## Senior Management

Mr. Chung Ming Fat, aged 63, is the director of logistic management for Hong Kong and Mainland China. Mr. Chung is one of our founders. Mr. Chung is primarily responsible for overall operation of our Logistics Centres in Tai Po and Dongguan. 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.

Ms. Lau Lee Fong, Rosa, aged 62 is the Chief Operations Officer – Hong Kong. Before joining the Group, Ms. Lau had worked in the Café de Coral Group since 1979 and was retired from the Senior General Manager – Specialty Restaurants of the Café de Coral Group in 2016. Ms. Lau holds a Master's Degree in Business Administration from the University of East Asia, Macau and a Master's Degree of Science in Hotel & Tourism Management from the Hong Kong Polytechnic University. Ms. Lau is a member of the Hotel & Catering International Management Association (U.K.).

Ms. Tsang Wing Ka, aged 43, is the director of finance and accounting department and is primarily responsible for our overall finance, accounting and taxation functions. Ms. Tsang joined the Group in December 2002 as finance and accounting manager. Ms. Tsang has over 10 years of experience in financial management. Ms. Tsang holds a Master's degree of Business Administration from the Chinese University of Hong Kong, a Bachelor's degree in Commerce (Accounting) from Curtin University of Technology in Australia and is currently an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Li Hiu Ming, aged 49, is the director of human resources department. She joined us in March 2002 as a manager of the human resources department. Ms. Li holds a master's degree of science in strategic human resources management from Hong Kong Baptist University and a bachelor's degree in business from Monash University. Ms. Li has over 20 years of 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 of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2017.

## 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 have complied with the required standards as set forth in the Model Code throughout the year under review.

## Board of Directors

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

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

### EXECUTIVE DIRECTORS:

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

### NON-EXECUTIVE DIRECTORS:

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

Biographical information of the directors is set out on page 12 to 14 of this annual report.

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

# CORPORATE GOVERNANCE REPORT

The Company has renewed the service contract of each of the Non-executive Directors and Independent Non-executive Directors for a term of two years commencing from 29 June 2016 unless terminated by either party giving to other not less than three months' prior notice in writing.

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

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

## Induction and Development of Directors

On appointment to the Board, Directors receive a package of orientation materials on the Group and provided with a comprehensive induction on the business operations and practices of the Group, as well as the general and specific duties of directors under general law and the Listing Rules.

To assist Directors' continuing professional development, details on legal and regulatory changes are provided to all Directors. Directors are also recommended and encouraged to attend forums or seminars relating to the rules, functions and duties of a listed company director.

According to the information provided by the Directors, they have read seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements for the year ended 31 December 2017.

## The Chairman and Chief Executive Officer

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

## Board Meetings

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

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

# CORPORATE GOVERNANCE REPORT

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

### MEETINGS ATTENDED DURING THE YEAR ENDED 31 DECEMBER 2017

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Number of meetings held during the year | 4 | 2 | 1 | 1 |
| Executive Directors: | | | | |
| Mr. Chung Wai Ping *(Chairman)* | 4/4 | N/A | N/A | N/A |
| Mr. Wong Ka Wing | 4/4 | N/A | N/A | N/A |
| Mr. Leung Yiu Chun *(Chief Executive Officer)* | 4/4 | N/A | N/A | N/A |
| Mr. Ho Yuen Wah | 3/4 | N/A | N/A | N/A |
| Non-executive Directors: | | | | |
| Mr. Fong Siu Kwong | 4/4 | N/A | 1/1 | N/A |
| Mr. Chan Yue Kwong, Michael | 3/4 | 2/2 | N/A | 0/1 |
| Independent Non-executive Directors: | | | | |
| Professor Chan Chi Fai, Andrew | 3/4 | 2/2 | N/A | 1/1 |
| Mr. Mak Hing Keung, Thomas | 4/4 | 2/2 | 1/1 | N/A |
| Mr. Ng Yat Cheung | 4/4 | N/A | 1/1 | 1/1 |

## 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.

# CORPORATE GOVERNANCE REPORT

The composition, role and function and summary of work done of each Board committee are set out 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 out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes, the internal control systems and licensing issues of the Group. Currently, Mr. Mak Hing Keung, Thomas and Professor Chan Chi Fai, Andrew, all being Independent Non-executive Directors, and Mr. Chan Yue Kwong, Michael, a Non-executive Director are members of the Audit Committee with Mr. Mak Hing Keung, Thomas, being the chairman.

### ROLE AND FUNCTION

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

### SUMMARY OF WORK DONE

The following is a summary of the work performed by the Audit Committee during the year ended 31 December 2017:

1. Review external auditor's management letter and management response;

2. Review the interim and annual reports before submission to the Board for approval; and

3. Review the progress and effectiveness of the Group's internal control and risk management.

## Nomination Committee

### COMPOSITION

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

### ROLE AND FUNCTION

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

### SUMMARY OF WORK DONE

During the year ended 31 December 2017, the Nomination Committee has reviewed made recommendation on the re-election of the directors to be proposed for shareholders' approval at the annual general meeting on 24 May 2018.

# CORPORATE GOVERNANCE REPORT

## 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 out in Appendix 14 to the Listing Rules. The Remuneration Committee has three members comprising Mr. Ng Yat Cheung, and Mr. Mak Hing Keung, Thomas, being Independent Non-executive Directors and Mr. Fong Siu Kwong, a Non-executive Director. The Remuneration Committee is currently chaired by Mr. Ng Yat Cheung.

### ROLE AND FUNCTION

The primary duties of the Remuneration Committee include making recommendations to the Board on the policy and structure of the company for all remuneration of Directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the specific remuneration package of all Executive Directors, including without limitation – base salaries, share options and benefits in kind, incentive payments and making recommendations to the Board on the remuneration of Non-executive Directors and Independent Non-executive Directors.

### SUMMARY OF WORK DONE

During the year ended 31 December 2017 the Remuneration Committee has reviewed the current salaries and benefits (including discretionary bonus and incentive scheme) of all Executive Directors and fees of all Non-executive Directors and Independent Non-executive Directors.

## Remuneration of Directors and Senior Management

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 December 2017 is set out below:

| | **Number of Individual** |
|---|---|
| Nil – HK$1,000,000 | 3 |
| HK$1,000,001 – HK$1,500,000 | – |
| HK$1,500,001 – HK$2,000,000 | 1 |

Further particulars in relation to Director's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 8 and 9 respectively, to the financial statements.

## 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 2017, 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.

# CORPORATE GOVERNANCE REPORT

The statement by the external auditor of the Company regarding the Directors' reporting responsibilities of the financial statements of the Group is set out in the Independent Auditor's Report on page 31 to 35 of this annual report.

## Company Secretary

Mr. Leung Yiu Chun, our company secretary is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

During the year ended 31 December 2017, Mr. Leung has undertaken over 15 hours of relevant professional training.

## External Auditors

The Group appointed Ernst & Young as the Group's principal auditors. The acknowledgement of their responsibilities on the financial statements is set out the Independent Auditor's Report on page 31 to 35 of this annual report.

The remuneration paid to Ernst & Young, and its affiliated firms, for services rendered in respect of the year ended 31 December 2017 is as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Audit fee | | |
| – provision for the year | **3,080** | 3,150 |
| Non-audit service fees | **290** | 290 |
| Total | **3,370** | 3,440 |

Non-audit services are agreed upon procedures.

## Internal Controls

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

The Board would communicate regularly with the audit committee and the external consultant.

## Investor Relations

To enhance transparency and effectively communicate with the investment community, the executive directors and senior management of the Company actively maintains close communications with various institutional investors, financial analysts and financial media by convening road shows and investors' conferences during the year. Investors are welcome to share their views with the Board by writing to the Company at its Hong Kong head office or sending enquiries to the Company's website at www.taoheung.com.hk. Investors and shareholders are welcome to review the Company's recent announcements at the Company's website 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 2017.

## Principal Activities and Business Review

The principal activity of the Company is investment holding. The Group is principally involved in the restaurant and bakery operations, provision of food catering services, production, sale and distribution of food products and other items related to restaurant operations and poultry farm operations. The principal activities of the principal subsidiaries are set out in note 1 to the financial statements.

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including credit risk and liquidity risk. The risk management policies and practices of the Group are set out in note 40 to the financial statements.

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group also commits to the principle and practice of recycling and reducing, such as joining food waste recycling partnership scheme and waste oil collection campaign; using LED lighting facilities and electric cooking equipments and implementing green office practices including using recycled paper for printing and copying, double-sided printing and copying, switching off idle lightings, air conditioning and electrical appliances.

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders to meet its immediate and long-term goals. During the year, there was no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

Pursuant to the articles of association of the Company, the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in the execution of their duties in their offices. Such permitted indemnity provision has been in force throughout the year. The Company has arranged appropriate Directors' liability insurance coverage for the Directors of the Group.

Further discussion and analysis of principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on page 7 to 11 of this annual report. This discussion forms part of this directors' report.

# REPORT OF THE DIRECTORS

## Results and Dividends

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on page 36 to 110.

An interim dividend of HK5.50 cents per ordinary share, totaling approximately HK$55,914,000 were paid on 12 October 2017. The directors recommend the payment of a final dividend of HK6.00 cents per ordinary share, totaling approximately HK$60,997,000 in respect of the year to shareholders on the register of members on 30 May 2018. The proposed final dividend for the year ended 31 December 2017 has been approved at the Company's board meeting on 22 March 2018. Details of dividends for the year ended 31 December 2017 are set out in note 11 to the financial statements.

## Closure of Register of Members

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

(i) From Friday, 18 May 2018 to Thursday, 24 May 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2017 Annual General Meeting. In order to be eligible to attend and vote at the 2017 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 17 May 2018; and

(ii) On Thursday, 31 May 2018, for the purpose of ascertaining shareholders' entitlements to the proposed final dividend. In order to establish the entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 30 May 2018.

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

## Summary Financial Information

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 112. This summary does not form part of the audited financial statements.

## Issued Capital and Share Options

Details of movements in the Company's issued capital and share options during the year are set out in notes 30 and 31 to the financial statements, respectively.

## Pre-Emptive Rights

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

# REPORT OF THE DIRECTORS

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

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

## Share Option Schemes

### (A) PRE-IPO SHARE OPTION SCHEME

Pursuant to a pre-initial public offering share option scheme adopted by the Company on 9 June 2007 (the "Pre-IPO Share Option Scheme") 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. No options were exercised during the year under review. 200,000 options were forfeited upon the termination of employment during the year under review.

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 2017, both days inclusive. 3,020,000 options were lapsed as a result of expiration of exercise period during the year under review.

Movements of the share options which have been granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2017 are as follows:

| | | Number of options | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Date of grant | Options outstanding at 1 January 2017 | Granted during the year | Options exercised during the year | Options lapsed on expiry | Options forfeited upon termination of employment | Options outstanding at 31 December 2017 |
| Other employees | 9 June 2007 | 3,220,000 | – | – | (3,020,000) | (200,000) | – |

### (B) SHARE OPTION SCHEME

Pursuant to a share option scheme adopted by the Company on 9 June 2007 (the "Share Option Scheme"), 20,130,000 options have been granted and accepted by 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 Share Option Scheme. No options were exercised during the year under review. 2,350,000 options where forfeited upon the termination of employment during the year under review. Share options granted under the Share Option Scheme shall vest in 2 tranches, as to 50% and 50% on 1 December 2017 and 1 December 2018, respectively, subject to the fulfilment of certain vesting conditions and are exercisable at HK$2.08 per share and the holders of the said share options may exercise the share options during the period from 2 December 2017 to 1 December 2026, both days inclusive.

Share Option Scheme expired on 8 June 2017 and no further options could be granted under the Share Option Scheme thereafter. However, the share options granted under the Share Option Scheme which have not been fully exercised remain valid until such time when such share options are fully exercised or have lapsed and will continue to be administered under the rules of the Share Option Scheme.

Details of the share options outstanding as at 31 December 2017 which have been granted under the Share Option Scheme are as follows:

| | | Number of options | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Date of grant | Options outstanding at 1 January 2017 | Granted during the year | Options exercised during the year | Options lapsed on expiry | Options forfeited upon termination of employment | Options outstanding at 31 December 2017 |
| **Executive Directors** | | | | | | | |
| Mr. Leung Yiu Chun | 2 December 2016 | 600,000 | – | – | – | – | 600,000 |
| Mr. Ho Yuen Wah | 2 December 2016 | 400,000 | – | – | – | – | 400,000 |
| **Connected Person** | | | | | | | |
| Mr. Chung Wai Leung | 2 December 2016 | 300,000 | – | – | – | – | 300,000 |
| **Other employees** | 2 December 2016 | 18,750,000 | – | – | – | (2,350,000) | 16,400,000 |
| **Total** | | 20,050,000 | – | – | – | (2,350,000) | 17,700,000 |

## (C) 2017 SHARE OPTION SCHEME

On 25 May 2017, the Company adopted a new share option scheme (the "2017 Share Option Scheme"). Pursuant to the 2017 Share Option Scheme, the Directors may invite participants to take up options at a price determined by the Board of Directors but in any event shall not be less than the highest 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 2017 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 2017 Share Option Scheme.

# REPORT OF THE DIRECTORS

## Distributable Reserves

At 31 December 2017, 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$821,307,000 of which HK$60,997,000 has been proposed as a final dividend for the year. In addition, the amount of HK$754,151,000 included the Company's share premium account and other reserves which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off debts as and when they fall due in the ordinary course of business.

## Charitable Contributions

During the year, the Group made charitable contributions totaling HK$923,000.

## Major Customers and Suppliers

For the year ended 31 December 2017, the percentage of total 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 34.6% and 12.2% of the total purchases of the Group, respectively.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

## Directors

The directors of the Company during the year were:

### EXECUTIVE DIRECTORS:

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

### NON-EXECUTIVE DIRECTORS:

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

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

# REPORT OF THE DIRECTORS

Pursuant to article 87(1) of the Company's articles of association, the following Executive Director namely Mr. Leung Yiu Chun, the following Non-executive Director namely Mr. Fong Siu Kwong and the following Independent Non-executive Directors namely Professor Chan Chi Fai, Andrew, Mr. Mak Hing Keung, Thomas and Mr. Ng Yat Cheung will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The Non-executive Directors and Independent Non-executive Directors are appointed for periods of two years.

The Company has received annual confirmations of independence from Professor Chan Chi Fai, Andrew, Mr. Mak Hing Keung, Thomas and Mr. Ng Yat Cheung and as at the date of this report 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 out on page 12 to 14 of the annual report.

## Directors' Service Contracts

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

Apart from the foregoing, no director 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 out in note 8 to the financial statements.

## Directors' Interests in Transactions, Arrangements or Contracts

Saved as disclosed under the section headed "Continuing Connected Transaction" on page 29 to 30 of the annual report, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group and the Company to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

# REPORT OF THE DIRECTORS

## Directors' Interests in Competing Business

None of the directors of the Company is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year or at 31 December 2017.

## Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2017, the interests and short positions of the directors in the share capital and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise 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:

Long positions in ordinary shares of the Company:

| | | Number of shares held, capacity and nature of interest | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Directors | Notes | Directly beneficially owned | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | Equity derivatives | Total | Percentage of the Company's share capital |
| **Executive Directors** | | | | | | | | |
| Mr. Chung Wai Ping | (a) and (b) | – | 12,174,222 | – | 400,013,689 | – | 412,187,911 | 40.55 |
| Mr. Wong Ka Wing | (c) | 5,522,679 | – | 103,283,124 | – | – | 108,805,803 | 10.70 |
| Mr. Leung Yiu Chun | (d) | 800,000 | – | – | – | 600,000 | 1,400,000 | 0.14 |
| Mr. Ho Yuen Wah | (d) | 2,000,000 | – | – | – | 400,000 | 2,400,000 | 0.24 |
| **Non-executive Director** | | | | | | | | |
| Mr. Fong Siu Kwong | | 180,000 | – | – | – | – | 180,000 | 0.02 |

Notes:

(a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited ("Tin Tao") which in turn is wholly-owned by BNP Paribas Corporate Services Pte. Ltd ("BPCSPL"), a company incorporated in Singapore. BPCSPL is holding the shares in Tin Tao as nominee for BNP Paribas Singapore Trust Corporation Limited ("BPSTCL") as trustees for a discretionary trust, the discretionary objects of which include Mr. Chung Wai Ping and certain members of his family. For the purposes of the SFO, Mr. Chung is the settlor of this trust. The ultimate holding company for BPSTCL is BNP Paribas SA.

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

(c) Of these shares, 5,522,679 shares were held by Mr. Wong Ka Wing personally and 103,283,124 shares were held by Joy Mount Investments Limited, which is wholly-owned by Mr. Wong Ka Wing.

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

Saved as disclosed above, as at 31 December 2017, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations 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.

# REPORT OF THE DIRECTORS

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

As at 31 December 2017, the interests and short positions of every persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

| | | Number of ordinary shares (long position) | | | |
|---|---|---|---|---|---|
| **Name of Shareholder** | Notes | **Directly beneficially owned** | **Through controlled corporation** | **Total** | **% of total issued shares** |
| Billion Era International Limited | (a) | 400,013,689 | – | 400,013,689 | 39.35 |
| Tin Tao Investments Limited | (a) | – | 400,013,689 | 400,013,689 | 39.35 |
| BNP Paribas Corporate Services Pte. Ltd | (a) | – | 400,013,689 | 400,013,689 | 39.35 |
| BNP Paribas Singapore Trust Corporation Limited | (a) | – | 400,013,689 | 400,013,689 | 39.35 |
| Joy Mount Investments Limited | (b) | 103,283,124 | – | 103,283,124 | 10.16 |
| Perfect Plan International Limited | (c) | 102,053,976 | – | 102,053,976 | 10.04 |
| Whole Gain Holdings Limited | | 56,795,068 | – | 56,795,068 | 5.59 |

Notes:

(a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited ("Tin Tao") which in turn is wholly-owned by BNP Paribas Corporate Services Pte. Ltd ("BPCSPL"), a company incorporated in Singapore. BPCSPL is holding the shares in Tin Tao as nominee for BNP Paribas Singapore Trust Corporation Limited ("BPSTCL") as trustees for a discretionary trust, the discretionary objects of which include Mr. Chung Wai Ping and certain members of his family. For the purposes of the SFO, Mr. Chung is the settlor of this trust. The ultimate holding company for BPSTCL is BNP Paribas SA.

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

(c) These shares were wholly-owned by Perfect Plan International Limited, which is an indirect wholly owned subsidiary of Cafe de Coral Holdings Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Save as disclosed above, as at 31 December 2017, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, 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 336 of the SFO.

## Directors' Rights to Acquire Shares or Debentures

Save as disclosed above and in the share option scheme disclosed in note 31 to the financial statements, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or the spouse or children under 18 years of age to acquired benefits by means of the acquisition of shares in, or debentures of the Company, or any other body corporate.

# REPORT OF THE DIRECTORS

## Continuing Connected Transactions

The Company or its designated subsidiaries entered into a master supply agreement with Baker Limited and its subsidiary ("Baker Group"), which are non wholly-owned subsidiaries of the Company. The Company will supply or procure to supply products to Baker Group and vice versa for their daily consumption in the course of their respective business for a period from 21 November 2015 to 31 December 2017. The execution of the master supply agreement constitutes a continuing connected transaction of the Company under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the transactions were disclosed in an announcement published on 20 November 2015 and 21 April 2017.

During the year ended 31 December 2017, the sales to Baker Group amounted to approximately HK$13,015,000 and there was no purchase from Baker Group.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

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

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

The auditor has reported to the Directors that (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors; (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the announcement dated 21 April 2017 made by the Company in respect of the disclosed continuing connected transactions.

# REPORT OF THE DIRECTORS

Save as disclosed above, the Group had the following transactions with connected parties during the year:

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Rental expense to a related party | (i) | **48** | 48 |
| Legal fee to a related party | (ii) | **1,052** | 117 |

Notes:

(i) The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, was charged based on mutually agreed terms at a monthly fixed amount of HK$4,000 (2016: HK$4,000).

(ii) The legal fee to a related party, Howell & Co., a partnership of which Mr. Fong Siu Kwong, a Non-executive Director of the Company is a partner, was charged based on mutually agreed terms.

These transactions are exempt from the reporting, announcement or independent shareholders' approval requirements under Rule 14A.76 of the Listing Rules and the details of the transactions are included herein for information only.

## Sufficiency of Public Float

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

## Auditors

Ernst & 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
22 March 2018

# INDEPENDENT AUDITOR'S REPORT

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

## Opinion

We have audited the consolidated financial statements of Tao Heung Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on page 36 to 110, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of property, plant and equipment*** | |
| The Group's management performed impairment assessment of property, plant and equipment for identified branches that continued to underperform by estimating the recoverable amount of their property, plant and equipment based on value in use calculation. An impairment of approximately HK$2.8 million has been recorded to reduce the carrying amount of certain property, plant and equipment of approximately HK$4.3 million to their estimated recoverable amount. Significant judgement was involved in the assessment of the recoverable amounts of the property, plant and equipment of those branches, including assumptions on the budgeted gross margin of respective branches and discount rate.<br><br>Relevant disclosures of property, plant and equipment are set out in notes 2.4, 3 and 13 to the financial statements. | In evaluating management's impairment assessment, we tested the assumptions used in the value in use calculation by: (i) comparing the budgeted gross margin with historical results and other industry specific statistics; (ii) comparing the discount rate with the relevant industry's weighted average cost of capital; and (iii) assessing the sensitivity of management estimates and assumptions used in evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed their recoverable amount. |
| ***Recognition of deferred tax assets*** | |
| As at 31 December 2017, the Group recognised deferred tax assets of approximately HK$102.9 million. Recognition of deferred tax assets is made to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Significant management judgement is involved 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.<br><br>Relevant disclosures of deferred tax assets are included in notes 2.4, 3 and 20 to the financial statements. | Our audit procedures included: (i) reviewing management's assessment on the recoverability of deferred tax assets based on the Group's projection of future taxable income within the statutory time limits in the jurisdictions from which the tax losses had arisen; and (ii) comparing the Group's projection to its tax planning strategies, tax reconciling adjustments and historical financial information. |

# INDEPENDENT AUDITOR'S REPORT

## Key audit matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Fair value of biological assets*** | |
| As at 31 December 2017, the carrying value of the Group's biological assets amounted to approximately HK$13.5 million. During the year ended 31 December 2017, the loss in fair value less costs to sell of biological assets amounted to approximately HK$1.1 million. Management engaged an independent professionally qualified valuer to determine the fair value less costs to sell of biological assets. The determination of the fair value less costs to sell is based on valuation models with assumptions and estimates, including market-determined prices, species, growing conditions and costs incurred.<br><br>Relevant disclosures of biological assets are included in notes 2.4, 3 and 19 to the financial statements. | Our audit procedures included obtaining an understanding of the valuation models and key assumptions used in the determination of the fair value less costs to sell of biological assets. We considered the competency and objectivity of the external valuer engaged by the Group. We also involved our internal valuation experts to assist us in evaluating the valuation models adopted and the key assumptions applied and compared valuation inputs to available market data. |

## Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT

## Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

# INDEPENDENT AUDITOR'S REPORT

## Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Chi Ying.

**Ernst & Young**
*Certified Public Accountants*
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

22 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **4,025,280** | 4,287,166 |
| Cost of sales | | **(3,635,384)** | (3,766,225) |
| Gross profit | | **389,896** | 520,941 |
| Other income and gains, net | 5 | **31,361** | 19,502 |
| Selling and distribution expenses | | **(116,186)** | (114,605) |
| Administrative expenses | | **(184,525)** | (191,966) |
| Other expenses | | **(12,064)** | (12,743) |
| Finance costs | 6 | **(3,902)** | (5,185) |
| Share of profits of associates, net | | **3,054** | 512 |
| PROFIT BEFORE TAX | 7 | **107,634** | 216,456 |
| Income tax expense | 10 | **(20,898)** | (44,530) |
| PROFIT FOR THE YEAR | | **86,736** | 171,926 |
| Attributable to: | | | |
| Owners of the parent | | **89,082** | 177,845 |
| Non-controlling interests | | **(2,346)** | (5,919) |
| | | **86,736** | 171,926 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| – Basic (HK cents) | 12 | **8.76** | 17.47 |
| – Diluted (HK cents) | 12 | **8.76** | 17.46 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **86,736** | 171,926 |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **54,199** | (77,943) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **140,935** | 93,983 |
| Attributable to: | | |
| Owners of the parent | **143,240** | 100,548 |
| Non-controlling interests | **(2,305)** | (6,565) |
| | **140,935** | 93,983 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **1,215,235** | 1,323,107 |
| Prepaid land lease payments | 14 | **92,742** | 90,483 |
| Investment properties | 15 | **26,800** | 24,100 |
| Goodwill | 16 | **39,556** | 38,803 |
| Other intangible asset | 17 | **1,008** | 1,039 |
| Investments in associates | 18 | **9,768** | 4,014 |
| Biological assets | 19 | **4,077** | 2,989 |
| Deferred tax assets | 20 | **102,850** | 87,589 |
| Rental deposits | | **109,606** | 99,889 |
| Deposits for purchases of items of property, plant and equipment | | **68,702** | 52,628 |
| Total non-current assets | | **1,670,344** | 1,724,641 |
| CURRENT ASSETS | | | |
| Inventories | 21 | **145,207** | 143,607 |
| Biological assets | 19 | **9,450** | 6,189 |
| Trade receivables | 22 | **46,347** | 31,003 |
| Prepayments, deposits and other receivables | 23 | **144,418** | 141,859 |
| Tax recoverable | | **9,394** | 6,805 |
| Pledged deposits | 24 | **13,781** | 12,660 |
| Cash and cash equivalents | 24 | **530,471** | 492,449 |
| Total current assets | | **899,068** | 834,572 |
| CURRENT LIABILITIES | | | |
| Trade payables | 25 | **216,708** | 215,391 |
| Other payables and accruals | 26 | **268,898** | 261,187 |
| Interest-bearing bank borrowings | 27 | **198,584** | 179,429 |
| Finance lease payable | 28 | **186** | 189 |
| Tax payable | | **16,260** | 19,113 |
| Total current liabilities | | **700,636** | 675,309 |
| NET CURRENT ASSETS | | **198,432** | 159,263 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,868,776** | 1,883,904 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Other payables and accruals | 26 | **90,621** | 84,313 |
| Interest-bearing bank borrowings | 27 | **–** | 8,597 |
| Finance lease payable | 28 | **604** | 157 |
| Due to non-controlling shareholders of subsidiaries | 29 | **19,928** | 22,474 |
| Deferred tax liabilities | 20 | **16,386** | 16,875 |
| Total non-current liabilities | | **127,539** | 132,416 |
| Net assets | | **1,741,237** | 1,751,488 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 30 | **101,661** | 101,661 |
| Reserves | 32 | **1,642,283** | 1,650,229 |
| | | **1,743,944** | 1,751,890 |
| **Non-controlling interests** | | **(2,707)** | (402) |
| Total equity | | **1,741,237** | 1,751,488 |

**Chung Wai Ping**
*Director*

**Leung Yiu Chun**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

| | | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 | Share premium account HK$'000 | Capital reserve HK$'000 (note 32) | Other reserve HK$'000 (note 32) | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2016 | | 102,161 | 335,220 | 110,748 | 11,056 | 6,782 | 9 | 24,135 | 1,191,735 | 1,781,846 | 6,163 | 1,788,009 |
| Profit for the year | | – | – | – | – | – | – | – | 177,845 | 177,845 | (5,919) | 171,926 |
| Other comprehensive income for the year: Exchange differences on translation of foreign operations | | – | – | – | – | – | – | (77,297) | – | (77,297) | (646) | (77,943) |
| Total comprehensive income for the year | | – | – | – | – | – | – | (77,297) | 177,845 | 100,548 | (6,565) | 93,983 |
| Equity-settled share option arrangement | 31 | – | – | – | – | 586 | – | – | – | 586 | – | 586 |
| Transfer of share option reserve upon forfeiture of share options | 31 | – | – | – | – | (579) | – | – | 579 | – | – | – |
| Shares repurchased | 30 | (500) | (8,596) | – | – | – | 500 | – | (500) | (9,096) | – | (9,096) |
| Final 2015 dividend | 11 | – | – | – | – | – | – | – | (60,997) | (60,997) | – | (60,997) |
| Interim 2016 dividend | 11 | – | – | – | – | – | – | – | (60,997) | (60,997) | – | (60,997) |
| At 31 December 2016 | | 101,661 | 326,624* | 110,748* | 11,056* | 6,789* | 509* | (53,162)* | 1,247,665* | 1,751,890 | (402) | 1,751,488 |

| | | **Attributable to owners of the parent** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Issued capital HK$'000** | **Share premium account HK$'000** | **Capital reserve HK$'000 (note 32)** | **Other reserve HK$'000 (note 32)** | **Share option reserve HK$'000** | **Capital redemption reserve HK$'000** | **Exchange fluctuation reserve HK$'000** | **Retained profits HK$'000** | **Total HK$'000** | **Non-controlling interests HK$'000** | **Total equity HK$'000** |
| At 1 January 2017 | | **101,661** | **326,624** | **110,748** | **11,056** | **6,789** | **509** | **(53,162)** | **1,247,665** | **1,751,890** | **(402)** | **1,751,488** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **89,082** | **89,082** | **(2,346)** | **86,736** |
| Other comprehensive income for the year: Exchange differences on translation of foreign operations | | **–** | **–** | **–** | **–** | **–** | **–** | **54,158** | **–** | **54,158** | **41** | **54,199** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **54,158** | **89,082** | **143,240** | **(2,305)** | **140,935** |
| Equity-settled share option arrangement | 31 | **–** | **–** | **–** | **–** | **6,389** | **–** | **–** | **–** | **6,389** | **–** | **6,389** |
| Transfer of share option reserve upon forfeiture and lapse of share options | 31 | **–** | **–** | **–** | **–** | **(6,732)** | **–** | **–** | **6,732** | **–** | **–** | **–** |
| Final 2016 dividend | 11 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(60,997)** | **(60,997)** | **–** | **(60,997)** |
| Special 2016 dividend | 11 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(40,664)** | **(40,664)** | **–** | **(40,664)** |
| Interim 2017 dividend | 11 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(55,914)** | **(55,914)** | **–** | **(55,914)** |
| At 31 December 2017 | | **101,661** | **326,624*** | **110,748*** | **11,056*** | **6,446*** | **509*** | **996*** | **1,185,904*** | **1,743,944** | **(2,707)** | **1,741,237** |

* These reserve accounts comprise the consolidated reserves of HK$1,642,283,000 (2016: HK$1,650,229,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **107,634** | 216,456 |
| Adjustments for: | | | |
| Interest income | 5 | **(6,798)** | (5,371) |
| Fair value gains on investment properties | 5 | **(2,700)** | (2,200) |
| Changes in fair value less costs to sell of biological assets | 7 | **1,089** | 511 |
| Finance costs | 6 | **3,902** | 5,185 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 7 | **(74)** | 27 |
| Impairment of items of property, plant and equipment | 7 | **2,826** | 3,307 |
| Write-off of items of property, plant and equipment | 7 | **8,149** | 8,898 |
| Amortisation of prepaid land lease payments | 7 | **2,242** | 1,909 |
| Depreciation of property, plant and equipment | 7 | **287,400** | 315,327 |
| Equity-settled share option expense | 7 | **6,389** | 586 |
| Gain on settlement of derivative financial instruments | 7 | **–** | (142) |
| Amortisation of other intangible asset | 7 | **82** | 82 |
| Share of profits of associates, net | | **(3,054)** | (512) |
| | | **407,087** | 544,063 |
| Decrease/(increase) in rental deposits | | **(7,844)** | 9,537 |
| Decrease/(increase) in inventories | | **1,426** | (2,989) |
| Decrease/(increase) in biological assets | | **(4,992)** | 7,722 |
| Increase in trade receivables | | **(13,818)** | (8,156) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **125** | (32,478) |
| Increase/(decrease) in trade payables | | **(6,431)** | 61,647 |
| Increase/(decrease) in other payables and accruals | | **5,230** | (22,748) |
| Decrease in derivative financial instruments | | **–** | (1,099) |
| Cash generated from operations | | **380,783** | 555,499 |
| Interest paid | | **(3,882)** | (5,172) |
| Hong Kong profits tax paid | | **(23,511)** | (38,872) |
| Overseas taxes paid | | **(18,871)** | (8,192) |
| Net cash flows from operating activities | | **334,519** | 503,263 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(150,969)** | (155,976) |
| Deposits paid for purchases of items of property, plant and equipment | | **(15,284)** | (1,968) |
| Additions to prepaid land lease payments | | **–** | (21,204) |
| Proceeds from disposal of items of property, plant and equipment | | **1,154** | 2,261 |
| Investment in an associate | | **(2,700)** | – |
| Loan to an associate | | **–** | (2,254) |
| Increase in pledged deposits | | **(482)** | (476) |
| Interest received | | **6,798** | 5,371 |
| Decrease in non-pledged time deposits with original maturity of more than three months when acquired | | **53,074** | 12,688 |
| Net cash flows used in investing activities | | **(108,409)** | (161,558) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Payment for repurchase of own shares | | **–** | (9,096) |
| New bank loans | | **355,000** | 197,000 |
| Repayment of bank loans | | **(344,442)** | (288,446) |
| Capital element of finance lease rental payments | | **(502)** | (210) |
| Interest element of finance lease rental payments | | **(20)** | (13) |
| Dividends paid | | **(157,575)** | (121,994) |
| Increase/(decrease) in an amount due to a non-controlling shareholder of a subsidiary | | **(3,076)** | 500 |
| Net cash flows used in financing activities | | **(150,615)** | (222,259) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **75,495** | 119,446 |
| Cash and cash equivalents at beginning of year | | **439,375** | 331,691 |
| Effect of foreign exchange rate changes, net | | **15,601** | (11,762) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **530,471** | 439,375 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **472,364** | 439,375 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **58,107** | – |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **530,471** | 439,375 |
| Non-pledged time deposits with original maturity of more than three months when acquired | | **–** | 53,074 |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | **530,471** | 492,449 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. Corporate and Group Information

Tao Heung Holdings Limited was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at No.18 Dai Fat Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

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

- restaurant operations and provision of food catering services
- bakery operations
- production, sale and distribution of food products and other items related to restaurant operations
- provision of poultry farm operations

### INFORMATION ABOUT PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

| Company name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| *Directly held:* | | | | | |
| Sky Cheer Group Limited@ | British Virgin Islands/ Hong Kong | Ordinary US$1 | **100%** | 100% | Investment holding |
| *Indirectly held:* | | | | | |
| Best Harvest Food Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Production, sale and distribution of products related to restaurant operations |
| Elite Sky International Development Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Great Sky International Enterprise Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Sky Castle Development Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. Corporate and Group Information (continued)

### INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (CONTINUED)

| Company name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| Sky Fine International Industrial Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Sky Great Development Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, 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 Leader Industrial Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Sky Triumph International Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Sky Well International Investment Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Skyford Enterprises Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Skyland Investment Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Property investment |
| Skymart Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Investment holding |
| Skywell Enterprise Limited | Hong Kong | Ordinary HK$500,000 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Starway International Development Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Restaurant operations and provision of food catering services |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. Corporate and Group Information (continued)

### INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (CONTINUED)

| Company name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| Tao Heung Seafood Hotpot Restaurant Limited | Hong Kong | Ordinary HK$38,000 | **100%** | 100% | Investment holding, provision of management and promotion services, trading of food and other operating items to restaurant operations and property investment |
| Tensel Investment Limited | Hong Kong | Ordinary HK$58,749,053 | **100%** | 100% | Investment holding and provision of treasury services |
| Top Eagle Development Limited | Hong Kong | Ordinary HK$40,000 | **100%** | 100% | Property investment |
| Triumph Sky Holdings Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding |
| 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, restaurant operations and provision of food catering services |
| Sky Gain Investment Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding |
| Sky Talent Enterprise Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| 東莞萬好食品有限公司*@ | People's Republic of China ("PRC")/ Mainland China | HK$322,100,000 and Renminbi ("RMB") 22,050,000 | **100%** | 100% | Production, sale and distribution of food products, restaurant operations and provision of food catering services |
| 深圳領鮮稻香飲食有限公司*@ | PRC/ Mainland China | HK$32,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Basic Tech Limited | Hong Kong | Ordinary HK$28,000 | **100%** | 100% | Property investment |
| Huge Sky Investments Limited | Hong Kong | Ordinary HK$291,000 | **100%** | 100% | Property investment |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. Corporate and Group Information (continued)

### INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (CONTINUED)

| Company name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| Nature Lion Limited | Hong Kong | Ordinary HK$250,000 | **100%** | 100% | Property investment and sale and distribution of food products and operating items related to restaurant operations |
| Poly Sky Investment Limited | Hong Kong | Ordinary HK$48,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Skyking Restaurant Limited | Hong Kong | Ordinary HK$71,000 | **100%** | 100% | Investment holding |
| Tin Shing Company Limited | Hong Kong | Ordinary HK$67,500 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Miracle Time Enterprise Limited | Hong Kong | Ordinary HK$1,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Skybest International Investment Enterprise Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Glory Rainbow International Trading Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Loyal Sky Holdings Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Sky Rich (China) Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding |
| Skymark Asia Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| 深圳友誼稻香海鮮火鍋酒家*@ | PRC/ Mainland China | HK$7,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 迎喜皇宮飲食(深圳)有限公司*@ | PRC/ Mainland China | HK$3,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. Corporate and Group Information (continued)

### INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (CONTINUED)

| Company name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| 廣州市新港稻香海鮮火鍋酒家有限公司*@ | PRC/ Mainland China | HK$8,250,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 廣州市僑光稻香海鮮火鍋酒家有限公司*@ | PRC/ Mainland China | HK$8,250,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Hongyet Limited | Hong Kong | Ordinary HK$100,000 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| Sky Trend Holdings Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding, restaurant operations and provision of food catering services |
| 東莞地王稻香飲食有限公司*@ | PRC/ Mainland China | HK$30,264,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 東莞天景稻香飲食有限公司*@ | PRC/ Mainland China | HK$36,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Tai Cheong Holdings Group Limited@ | British Virgins Islands | Ordinary US$10,000 | **100%** | 100% | Investment holding |
| Tai Cheong Bakery Company Limited | Hong Kong | Ordinary HK$300,000 | **100%** | 100% | Production and retail of bakery products |
| Tai Cheong (TM) Co., Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Provision of promotion services |
| 廣州天暉稻香飲食有限公司*@ | PRC/ Mainland China | HK$18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 廣州市百興畜牧飼料有限公司**@ Guangzhou Baixing Pasturage and Feed Co., Ltd. | PRC/ Mainland China | RMB3,000,000 | **70%** | 70% | Production, slaughtering, processing and sale of livestock |
| 廣州益生種禽有限公司**@ Guangzhou Yisheng Poultry Co., Ltd. | PRC/ Mainland China | RMB4,000,000 | **70%** | 70% | Production and sale of livestock |
| 廣西萬象城稻香餐飲有限公司*@ | PRC/ Mainland China | HK$18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. Corporate and Group Information (continued)

### INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (CONTINUED)

| Company name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| 瀋陽迎喜餐飲有限公司*@ | PRC/ Mainland China | HK$18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 武漢漢街稻香飲食有限公司*@ | PRC/ Mainland China | HK$18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 廣州東匯城稻香飲食有限公司*@ | PRC/ Mainland China | HK$12,400,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 上海天浩迎喜餐飲有限公司*@ | PRC/ Mainland China | HK$18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 佛山南海天勝稻香飲食有限公司*@ | PRC/ Mainland China | HK$18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Keen Port International Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding |
| 中山健港稻香飲食有限公司*@ | PRC/ Mainland China | HK$18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Sky Joy Enterprise Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Investment holding |
| 鶴山天欣稻香飲食有限公司*@ | PRC/ Mainland China | RMB24,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Baker Limited | Hong Kong | Ordinary HK$10,000 | **60%** | 60% | Investment holding |
| 豐王樂食品（深圳）有限公司*@ ACT Foods (Shenzhen) Company Limited | PRC/ Mainland China | RMB45,000,000 | **60%** | 60% | Production and retail of bakery products |
| Ringer Hut Hong Kong Co., Limited | Hong Kong | Ordinary HK$15,000,000 | **51%** | 51% | Restaurant operations and provision of food catering services |
| 上海愚園迎喜餐飲有限公司*@ | PRC/ Mainland China | RMB15,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 1. Corporate and Group Information (continued)

### INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (CONTINUED)

| Company name | Place of incorporation/ registration and business | Issued ordinary share capital/ registered paid-up capital | Percentage of equity attributable to the Company 2017 | 2016 | Principal activities |
|---|---|---|---|---|---|
| Tang Dynasty Ceramics Co., Limited | Hong Kong | Ordinary HK$10,000 | **80%** | 80% | Trading of products related to restaurant operations |
| 上海迎喜天浩餐飲管理有限公司*@ | PRC/ Mainland China | RMB20,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 鄭州稻香餐飲有限公司*@ | PRC/ Mainland China | HK$14,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 上海浦東迎喜餐飲管理有限公司*@ | PRC/ Mainland China | RMB18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 上海淞滬迎喜餐飲管理有限公司*@ | PRC/ Mainland China | RMB18,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| 無錫海岸城稻香餐飲管理有限公司*@ | PRC/ Mainland China | HK$14,000,000 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Sky Ascent Development Limited | Hong Kong | Ordinary HK$1 | **100%** | 100% | Restaurant operations and provision of food catering services |
| Winsky Enterprise Limited | Hong Kong | Ordinary HK$2 | **100%** | 100% | Restaurant operations and provision of food catering services |

@ The statutory financial statements of these companies are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and biological assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") 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 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.2 Changes in Accounting Policies and Disclosures

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

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS 12 *included in Annual Improvements to HKFRSs 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12* |

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 33(B) to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

## 2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| HKFRS 9 | *Financial Instruments*[1] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During the year, the Group has performed an assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

### (A) CLASSIFICATION AND MEASUREMENT

The Group does not expect the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

### (B) IMPAIRMENT

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

In general, the directors of the Company anticipate the application of the expected loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition.

# NOTES TO FINANCIAL STATEMENTS

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

The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. The Group also expects the expected changes in accounting policies will not have a material impact on the Group's financial statements from 2018 onwards. During the year, the Group has performed an assessment on the impact of the adoption of HKFRS 15.

The Group does not expect the adoption of HKFRS 15 will have a significant impact on the Group's financial performance and financial position. However, the presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18 *Revenue*. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 35(B) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$1,411,737,000 (2016: HK$1,278,121,000). Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies

### INVESTMENTS IN ASSOCIATES

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### BUSINESS COMBINATIONS AND GOODWILL (CONTINUED)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### FAIR VALUE MEASUREMENT

The Group measures its investment properties and biological assets at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### FAIR VALUE MEASUREMENT (CONTINUED)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), 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 of disposal, 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### RELATED PARTIES

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

| | |
|---|---|
| Leasehold land under finance leases | Over the lease terms |
| Buildings | Over the shorter of the lease terms and 2% – 5% |
| Leasehold improvements | 10% – $33^1/_3$% |
| Furniture, fixtures and equipment | 20% – $33^1/_3$% |
| Motor vehicles | 20% – 25% |

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss 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, equipment and leasehold improvements 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 and installation during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### INVESTMENT PROPERTIES

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

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

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

### INTANGIBLE ASSET (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

**Trademark**

Purchased trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 17 years.

### 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, included prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss 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 statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### FINANCIAL ASSETS

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

**Subsequent measurement of loans and receivables**

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

### 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is 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 through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

### FINANCIAL LIABILITIES

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### FINANCIAL LIABILITIES (CONTINUED)

**Subsequent measurement**

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

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

**Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### 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 statement of profit or loss.

### OFFSETTING OF FINANCIAL INSTRUMENTS

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

### BIOLOGICAL ASSETS

Biological assets are living animals and are measured on initial recognition and at the financial year end at their fair value less costs to sell. The fair value of biological assets is measured at the market prices in the local market. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in the statement of profit or loss for the period in which it arises.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

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

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

### PROVISIONS

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

### INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### INCOME TAX (CONTINUED)

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

- when the deferred tax liability arises from the initial recognition of goodwill or 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, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### 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 and bakery operations, when catering services have been provided to customers;

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

(c) from poultry farm operations, when the livestock or the slaughtered chicken are sold to customers and the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither management involvement to the degree usually associated with ownership, nor effective control over the stock sold;

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

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets;

(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 statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments; and

(g) government grants, where there is reasonable assurance that the government grant will be received and all attaching condition will be complied with, as further explained in the accounting policies for “Government grants” above.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### SHARE-BASED PAYMENTS

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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 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 31 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### OTHER EMPLOYEE BENEFITS

**Retirement benefit schemes**

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the 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 statement of profit or loss 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 a central pension scheme operated by local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

### DIVIDENDS

Special dividends and final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

### FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 2.4 Summary of Significant Accounting Policies (continued)

### FOREIGN CURRENCIES (CONTINUED)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

## 3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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 operating leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

**Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

### JUDGEMENTS (CONTINUED)

**Income taxes**

The Group is subject to income taxes in different jurisdictions. Significant judgement is involved in determining the provision for income taxes. Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation, interpretations and practices in respect thereof.

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described 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 provision of services, or from a change in the market demand for the product or service output of an asset, the expected usage of the asset, the 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. Adjustment of depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each reporting period, based on changes in circumstances.

**Impairment of property, plant and equipment**

The Group assesses whether there are any indicators of impairment for its property, plant and equipment at the end of each reporting period. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is determined based on its value in use. In assessing value in use, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

### ESTIMATION UNCERTAINTY (CONTINUED)

**Impairment of non-financial assets (other than goodwill and property, plant and equipment)**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**Estimation of fair value of investment properties**

Investment properties are stated at their fair values. The fair value at the end of the reporting period was based on a valuation on these investment properties estimated by the directors or conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the gain or loss recognised in the statement of profit or loss.

**Estimation of fair value of biological assets**

The fair value of biological assets is determined at the end of each reporting period by an independent professionally qualified valuer according to a market value assessment. The valuation involves significant assumptions and estimates including market-determined prices, species, growing conditions and cost incurred.

**Impairment allowances on loans and receivables**

The Group regularly reviews its loans and receivables to assess impairment. In determining whether a loan or receivable or a group of loans and 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 loans and 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 deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 4. Operating Segment Information

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

### GEOGRAPHICAL INFORMATION

The following tables present revenue from external customers for the years ended 31 December 2017 and 2016, and certain non-current asset information as at 31 December 2017 and 2016, by geographic area.

**(a) Revenue from external customers**

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Hong Kong | **2,571,066** | 2,779,579 |
| Mainland China | **1,454,214** | 1,507,587 |
| | **4,025,280** | 4,287,166 |

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

**(b) Non-current assets**

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Hong Kong | **469,074** | 510,378 |
| Mainland China | **988,814** | 1,026,785 |
| | **1,457,888** | 1,537,163 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 5. Revenue, Other Income and Gains, Net

Revenue represents gross revenue from restaurant, bakery and poultry farm operations and net invoiced value of food and other items sold, after deduction of relevant taxes and allowances for trade discounts.

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

| | Note | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| **Revenue** | | | |
| Restaurant and bakery operations | | **3,774,882** | 4,054,580 |
| Sale of food and other items | | **186,733** | 150,559 |
| Poultry farm operations | | **63,665** | 82,027 |
| | | **4,025,280** | 4,287,166 |
| **Other income and gains, net** | | | |
| Bank interest income | | **6,798** | 5,371 |
| Government grants* | | **6,642** | 2,916 |
| Gross rental income | | **4,290** | 412 |
| Sponsorship income | | **2,419** | 3,725 |
| Fair value gains on investment properties | 15 | **2,700** | 2,200 |
| Gain on disposal of items of property, plant and equipment, net | | **74** | – |
| Net gain on settlement of derivative financial instrument | | **–** | 142 |
| Foreign exchange differences, net | | **1,555** | – |
| Others | | **6,883** | 4,736 |
| | | **31,361** | 19,502 |

* Various government grants have been received by certain subsidiaries in connection with setting up certain facilities at a poultry farm and a logistic centre. These grants are credited to a deferred income account and are released to the statement of profit or loss over the useful lives of the relevant facilities. There are no unfulfilled conditions or contingencies relating to these grants.

## 6. Finance Costs

An analysis of finance costs is as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Interest on bank loans | **3,882** | 5,172 |
| Interest on finance leases | **20** | 13 |
| | **3,902** | 5,185 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 7. Profit Before Tax

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

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **1,288,462** | 1,386,858 |
| Depreciation* | 13 | **287,400** | 315,327 |
| Amortisation of prepaid land lease payments* | 14 | **2,242** | 1,909 |
| Amortisation of other intangible asset | 17 | **82** | 82 |
| Employee benefit expense* (including directors' remuneration (note 8)): | | | |
| Salaries and bonuses | | **1,112,624** | 1,104,040 |
| Retirement benefit scheme contributions (defined contribution schemes) | | **78,557** | 77,231 |
| Equity-settled share option expense | | **6,389** | 586 |
| | | **1,197,570** | 1,181,857 |
| Lease payments under operating leases*: | | | |
| Minimum lease payments | | **359,752** | 366,195 |
| Contingent rents | | **2,781** | 6,792 |
| | | **362,533** | 372,987 |
| Auditors' remuneration | | **4,421** | 4,791 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | | **(74)** | 27 |
| Impairment of items of property, plant and equipment# | | **2,826** | 3,307 |
| Write-off of items of property, plant and equipment | | **8,149** | 8,898 |
| Changes in fair value less costs to sell of biological assets | 19 | **1,089** | 511 |
| Net gain on settlement of derivative financial instruments | | **–** | (142) |
| Foreign exchange differences, net | | **(1,555)** | 4,111 |

* The cost of sales for the year amounting to HK$3,635,384,000 (2016: HK$3,766,225,000) included depreciation charges of HK$270,957,000 (2016: HK$295,934,000), amortisation of prepaid land lease payments of HK$2,242,000 (2016: HK$1,909,000), employee benefit expense of HK$1,095,969,000 (2016: HK$1,083,372,000) and operating lease rentals of HK$362,232,000 (2016: HK$372,738,000).

# Included in "Other expenses" in the consolidated statement of profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Fees | **1,461** | 1,417 |
| Other emoluments: | | |
| Salaries | **3,121** | 2,721 |
| Discretionary bonuses | **305** | 260 |
| Equity-settled share option expense | **343** | 30 |
| Retirement benefit scheme contributions | **65** | 65 |
| | **3,834** | 3,076 |
| | **5,295** | 4,493 |

| 2017 | Fees<br>HK$'000 | Salaries<br>HK$'000 | Discretionary bonuses<br>HK$'000 | Equity-settled share option expense<br>HK$'000 | Retirement benefit scheme contributions<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| Executive directors: | | | | | | |
| Mr. Chung Wai Ping | – | 207 | 22 | – | 11 | 240 |
| Mr. Wong Ka Wing | 471 | 216 | 72 | – | 18 | 777 |
| Mr. Leung Yiu Chun | – | 1,730 | 142 | 206 | 18 | 2,096 |
| Mr. Ho Yuen Wah | – | 968 | 69 | 137 | 18 | 1,192 |
| | 471 | 3,121 | 305 | 343 | 65 | 4,305 |
| Non-executive directors: | | | | | | |
| Mr. Fong Siu Kwong | 198 | – | – | – | – | 198 |
| Mr. Chan Yue Kwong, Michael | 198 | – | – | – | – | 198 |
| | 396 | – | – | – | – | 396 |
| Independent non-executive directors: | | | | | | |
| Professor Chan Chi Fai, Andrew | 198 | – | – | – | – | 198 |
| Mr. Mak Hing Keung, Thomas | 198 | – | – | – | – | 198 |
| Mr. Ng Yat Cheung | 198 | – | – | – | – | 198 |
| | 594 | – | – | – | – | 594 |
| | 1,461 | 3,121 | 305 | 343 | 65 | 5,295 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 8. Directors' Remuneration (continued)

| 2016 | Fees HK$'000 | Salaries HK$'000 | Discretionary bonuses HK$'000 | Equity-settled share option expense HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Executive directors: | | | | | | |
| Mr. Chung Wai Ping | – | 202 | 17 | – | 11 | 230 |
| Mr. Wong Ka Wing | 457 | 216 | 57 | – | 18 | 748 |
| Mr. Leung Yiu Chun | – | 1,358 | 115 | 18 | 18 | 1,509 |
| Mr. Ho Yuen Wah | – | 945 | 71 | 12 | 18 | 1,046 |
| | 457 | 2,721 | 260 | 30 | 65 | 3,533 |
| Non-executive directors: | | | | | | |
| Mr. Fong Siu Kwong | 192 | – | – | – | – | 192 |
| Mr. Chan Yue Kwong, Michael | 192 | – | – | – | – | 192 |
| | 384 | – | – | – | – | 384 |
| Independent non-executive directors: | | | | | | |
| Professor Chan Chi Fai, Andrew | 192 | – | – | – | – | 192 |
| Mr. Mak Hing Keung, Thomas | 192 | – | – | – | – | 192 |
| Mr. Ng Yat Cheung | 192 | – | – | – | – | 192 |
| | 576 | – | – | – | – | 576 |
| | 1,417 | 2,721 | 260 | 30 | 65 | 4,493 |

During the year ended 31 December 2016, 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 31 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss 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.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 9. Five Highest Paid Employees

The five highest paid employees during the year included two (2016: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Salaries | **3,198** | 2,135 |
| Discretionary bonuses | **261** | 138 |
| Equity-settled share option expense | **149** | 20 |
| Retirement benefit scheme contributions | **54** | 54 |
| | **3,662** | 2,347 |

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

| | Number of employees | |
|---|---|---|
| | **2017** | 2016 |
| Nil to HK$1,000,000 | **2** | 3 |
| HK$1,000,001 to HK$1,500,000 | **–** | – |
| HK$1,500,001 to HK$2,000,000 | **1** | – |
| | **3** | 3 |

During the year ended 31 December 2016, share options were granted to non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss 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 and non-chief executive highest paid employees' remuneration disclosures.

## 10. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | **22,901** | 29,275 |
| Overprovision in prior years | **(496)** | (503) |
| Current – Mainland China | **13,977** | 16,056 |
| Deferred (note 20) | **(15,484)** | (298) |
| Total tax charge for the year | **20,898** | 44,530 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 10. Income Tax (continued)

Pursuant to the PRC Corporate Income Tax Law and its interpretation rules, the assessable income generated from qualifying agricultural business is eligible for certain tax benefits, including full PRC Corporate Income Tax exemption. Certain PRC subsidiaries of the Group engaged in qualifying agricultural business are entitled to exemption of the PRC Corporate Income Tax.

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory tax rate to the tax expense at the Group's effective tax rate is as follows:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **HK$'000** | % | HK$'000 | % |
| Profit before tax | **107,634** | | 216,456 | |
| Tax at the Hong Kong statutory tax rate | **17,760** | 16.5 | 35,715 | 16.5 |
| Difference in tax rates applied for specific provinces in Mainland China | **(2,281)** | | 4,562 | |
| Effect of withholding tax on 5% or 10% on the distributable profits of the Group's PRC subsidiaries | **(6)** | | 865 | |
| Adjustments in respect of current tax of previous years | **(496)** | | (503) | |
| Income not subject to tax | **(1,827)** | | (2,120) | |
| Expenses not deductible for tax | **2,869** | | 2,411 | |
| Tax losses not recognised | **5,375** | | 3,687 | |
| Profits attributable to associates | **(504)** | | (85) | |
| Others | **8** | | (2) | |
| Tax charge at the Group's effective rate | **20,898** | 19.4 | 44,530 | 20.6 |

The share of tax attributable to associates amounting to approximately HK$166,000 (2016: HK$2,000) is included in "Share of profits of associates, net" in the consolidated statement of profit or loss.

## 11. Dividends

| | **2017** | 2016 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interim – HK5.50 cents (2016: HK6.00 cents) per ordinary share | **55,914** | 60,997 |
| Proposed special – Nil (2016: HK4.00 cents) per ordinary share | **–** | 40,664 |
| Proposed final – HK6.00 cents (2016: HK6.00 cents) per ordinary share | **60,997** | 60,997 |
| Adjustment to 2015 final dividend* | **–** | (300) |
| | **116,911** | 162,358 |

* The adjustment was made due to shares repurchased prior the payment of 2015 final dividend.

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (2016: 1,017,922,475) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (2016: 1,017,922,475), as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 354,166 (2016: 665,151) assumed to have been issued at no consideration on the deemed conversion of all share options into ordinary shares.

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

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation | **89,082** | 177,845 |

| | **Number of shares** | |
|---|---|---|
| | **2017** | 2016 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **1,016,611,000** | 1,017,922,475 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **354,166** | 665,151 |
| | **1,016,965,166** | 1,018,587,626 |

# NOTES TO FINANCIAL STATEMENTS

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## 13. Property, Plant and Equipment

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | |
| Cost: | | | | | | |
| At 1 January 2017 | 592,237 | 1,555,193 | 1,001,749 | 12,341 | 16,783 | 3,178,303 |
| Additions | 583 | 75,159 | 72,206 | 1,347 | 4,905 | 154,200 |
| Transfers | 10,113 | 2,414 | 9,855 | – | (22,382) | – |
| Disposals | – | (9) | (4,488) | (2,043) | – | (6,540) |
| Write-off | – | (109,160) | (74,527) | (1,352) | – | (185,039) |
| Exchange realignment | 14,716 | 44,344 | 32,631 | 201 | 847 | 92,739 |
| At 31 December 2017 | 617,649 | 1,567,941 | 1,037,426 | 10,494 | 153 | 3,233,663 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2017 | 158,215 | 982,086 | 703,664 | 11,231 | – | 1,855,196 |
| Provided during the year | 13,192 | 172,578 | 100,931 | 699 | – | 287,400 |
| Disposals | – | (9) | (3,408) | (2,043) | – | (5,460) |
| Write-off | – | (105,538) | (70,000) | (1,352) | – | (176,890) |
| Impairment | – | 2,826 | – | – | – | 2,826 |
| Exchange realignment | 2,680 | 29,969 | 22,543 | 164 | – | 55,356 |
| At 31 December 2017 | 174,087 | 1,081,912 | 753,730 | 8,699 | – | 2,018,428 |
| Net book value: | | | | | | |
| At 31 December 2017 | 443,562 | 486,029 | 283,696 | 1,795 | 153 | 1,215,235 |
| **31 December 2016** | | | | | | |
| Cost: | | | | | | |
| At 1 January 2016 | 592,481 | 1,573,725 | 1,002,948 | 13,153 | 5,499 | 3,187,806 |
| Additions | 23,711 | 120,546 | 85,796 | 86 | 13,537 | 243,676 |
| Transfers | 1,340 | 606 | – | – | (1,946) | – |
| Disposals | – | (11,759) | (5,148) | (410) | – | (17,317) |
| Write-off | (5,075) | (67,993) | (38,521) | (188) | – | (111,777) |
| Exchange realignment | (20,220) | (59,932) | (43,326) | (300) | (307) | (124,085) |
| At 31 December 2016 | 592,237 | 1,555,193 | 1,001,749 | 12,341 | 16,783 | 3,178,303 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2016 | 151,556 | 900,950 | 656,222 | 11,075 | – | 1,719,803 |
| Provided during the year | 13,057 | 188,247 | 113,113 | 910 | – | 315,327 |
| Disposals | – | (10,257) | (4,362) | (410) | – | (15,029) |
| Write-off | (3,045) | (65,109) | (34,577) | (148) | – | (102,879) |
| Impairment | – | 3,307 | – | – | – | 3,307 |
| Exchange realignment | (3,353) | (35,052) | (26,732) | (196) | – | (65,333) |
| At 31 December 2016 | 158,215 | 982,086 | 703,664 | 11,231 | – | 1,855,196 |
| Net book value: | | | | | | |
| At 31 December 2016 | 434,022 | 573,107 | 298,085 | 1,110 | 16,783 | 1,323,107 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 13. Property, Plant and Equipment (continued)

At 31 December 2017, the net carrying amount of the Group's property, plant and equipment held under a finance lease included in furniture, fixtures and equipment was HK$741,000 (2016: HK$346,000).

As at 31 December 2017, the leasehold land and buildings with an aggregate net carrying amount of approximately HK$85,498,000 (2016: HK$87,403,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 27).

As at 31 December 2017, the Group's management identified certain branches which continued to underperform and the estimated corresponding recoverable amount of their property, plant and equipment. Based on these estimates, an impairment loss of HK$2,826,000 (2016: HK$3,307,000) was recognised to write down the carrying amount of these items of property, plant and equipment to their recoverable amount of HK$1,428,000 (2016: HK$8,145,000) as at 31 December 2017. The estimates of the recoverable amount were based on the value in use of these property, plant and equipment, determined using a discount rate of 7.6% (2016: 5.7%).

## 14. Prepaid Land Lease Payments

| | **2017<br>HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **92,682** | 78,752 |
| Additions | **–** | 21,204 |
| Recognised during the year | **(2,242)** | (1,909) |
| Exchange realignment | **4,611** | (5,365) |
| Carrying amount at 31 December | **95,051** | 92,682 |
| Current portion included in prepayments, deposits and other receivables (note 23) | **(2,309)** | (2,199) |
| Non-current portion | **92,742** | 90,483 |

## 15. Investment Properties

| | **2017<br>HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **24,100** | 21,900 |
| Net gain from a fair value adjustment | **2,700** | 2,200 |
| Carrying amount at 31 December | **26,800** | 24,100 |

The Group's investment properties consist of eleven car parking spaces and one residential property in Hong Kong. The directors of the Company have determined that the investment properties consist of two classes of asset, i.e., car parking spaces and residential property, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by Cushman & Wakefield Limited, an independent professionally qualified valuer, at HK$26,800,000. Each year, the Group appoints an external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

# NOTES TO FINANCIAL STATEMENTS

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## 15. Investment Properties (continued)

The investment properties are leased to third parties under operating lease arrangements, further summary details of which are included in note 35(A) to the financial statements.

At 31 December 2017, the Group's investment properties with a total carrying amount of HK$18,700,000 (2016: HK$20,300,000) were pledged to secure the banking facilities granted to the Group (note 27).

### FAIR VALUE HIERARCHY

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

Details of fair value hierarchy are set out in note 2.4 to the financial statements.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | **Car parking spaces** HK$'000 | **Residential property** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Carrying amount at 1 January 2016: | 18,500 | 3,400 | 21,900 |
| Net gain from a fair value adjustment recognised in profit or loss | 2,200 | – | 2,200 |
| Carrying amount at 31 December 2016 and 1 January 2017: | **20,700** | **3,400** | **24,100** |
| Net gain from a fair value adjustment recognised in profit or loss | **2,200** | **500** | **2,700** |
| Carrying amount at 31 December 2017 | **22,900** | **3,900** | **26,800** |

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

| | **Valuation technique** | **Significant unobservable inputs** | **Value** 2017 | 2016 |
|---|---|---|---|---|
| Car parking spaces | Income capitalisation approach | Estimated rental value (per car parking space per month) | **HK$5,500** | HK$5,500 |
| | | Capitalisation rate | **3.13%** | 3.50% |
| Residential property | Income capitalisation approach | Estimated rental value (per sq. ft. per month) | **HK$22.0** | HK$18.5 |
| | | Capitalisation rate | **3.13%** | 3.00% |

A significant increase/decrease in the estimated rental value would result in a significant increase/decrease in the fair value of the investment properties. A significant increase/decrease in the capitalisation rate would result in a significant decrease/increase in the fair value of the investment properties.

# NOTES TO FINANCIAL STATEMENTS

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## 16. Goodwill

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Cost at 1 January | **38,803** | 39,903 |
| Exchange realignment | **753** | (1,100) |
| Cost and net carrying amount at 31 December | **39,556** | 38,803 |

### IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Restaurant operations;
- Bakery operations;
- Property investment; and
- Poultry farm operations.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Restaurant operations | **16,766** | 16,766 |
| Bakery operations | **7,072** | 7,072 |
| Property investment | **61** | 61 |
| Poultry farm operations | **15,657** | 14,904 |
| | **39,556** | 38,803 |

The recoverable amounts of the cash-generating units have been determined based on value in use calculations 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 7.6% (2016: 5.7%), and the cash flows beyond the five-year period are extrapolated using an average growth rate of 2% (2016: 2%).

Assumptions were used in the value in use calculations of the cash-generating units for the years ended 31 December 2017 and 31 December 2016. 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, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

# NOTES TO FINANCIAL STATEMENTS

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## 17. Other Intangible Asset

| | Trademark 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Cost at 1 January, net of accumulated amortisation | **1,039** | 1,223 |
| Amortisation provided during the year | **(82)** | (82) |
| Exchange realignment | **51** | (102) |
| At 31 December | **1,008** | 1,039 |
| At 31 December: | | |
| Cost | **1,402** | 1,351 |
| Accumulated amortisation | **(394)** | (312) |
| Net carrying amount | **1,008** | 1,039 |

## 18. Investments in Associates

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Share of net assets | **7,572** | 1,790 |
| Goodwill on acquisition | **122** | 122 |
| Provision for impairment | **(152)** | (152) |
| | **7,542** | 1,760 |
| Loan to an associate | **2,226** | 2,254 |
| | **9,768** | 4,014 |

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the loan is considered as part of the Group's net investments in the associate.

The Group's other receivables with associates are disclosed in note 23 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 18. Investments in Associates (continued)

Particulars of the associates are as follows:

| Company name | Particulars of issued shares held | Place of incorporation | Percentage of ownership interest attributable to the Group 2017 | Percentage of ownership interest attributable to the Group 2016 | Principal activities |
|---|---|---|---|---|---|
| Tin Park Limited | Ordinary shares | Hong Kong | **39%** | 39% | Inactive |
| World Wider International Limited | Ordinary shares | Hong Kong | **39%** | 39% | Inactive |
| Tai Cheong Bakery Pte. Limited | Ordinary shares | Singapore | **49%** | 49% | Production and retail of bakery products |
| Du Hsiao Yueh (Hong Kong) Limited | Ordinary shares | Hong Kong | **30%** | – | Restaurant operations and provision of food catering services |

The above associates are indirectly held by the Company.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Share of the associates' profit for the year | **3,054** | 512 |
| Share of the associates' total comprehensive income | **3,054** | 512 |
| Aggregate carrying amount of the Group's investments in the associates | **9,768** | 4,014 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 19. Biological Assets

Movements of the biological assets are summarised as follows:

| | Immature chicken breeders HK$'000 | Mature chicken breeders HK$'000 | Broilers HK$'000 | Pig breeders HK$'000 | Pig commodities HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 1,138 | 3,677 | 6,382 | 3,600 | 3,852 | 18,649 |
| Increase due to purchases | 32 | 264 | 50,850 | – | 238 | 51,384 |
| Additional costs incurred | 818 | 4,471 | 23,455 | 2,515 | 7,199 | 38,458 |
| Decrease due to retirement and death | (118) | (1,213) | (243) | – | – | (1,574) |
| Decrease due to sales and consumptions | (1,098) | (6,518) | (75,202) | (775) | (9,555) | (93,148) |
| Transfers | (695) | 695 | – | (2,103) | 2,103 | – |
| Transfer to inventories | – | (1,125) | (1,714) | – | (3) | (2,842) |
| Change in fair value less costs to sell | – | – | 796 | – | (1,307) | (511) |
| Exchange realignment | (77) | (251) | (395) | (248) | (267) | (1,238) |
| At 31 December 2016 and 1 January 2017 | **–** | **–** | **3,929** | **2,989** | **2,260** | **9,178** |
| Increase due to purchases | **–** | **–** | **68,366** | **10** | **1,548** | **69,924** |
| Additional costs incurred | **–** | **–** | **24,616** | **2,493** | **7,313** | **34,422** |
| Decrease due to retirement and death | **–** | **–** | **(439)** | **–** | **–** | **(439)** |
| Decrease due to sales and consumptions | **–** | **–** | **(90,225)** | **(849)** | **(6,049)** | **(97,123)** |
| Transfers | **–** | **–** | **–** | **(717)** | **717** | **–** |
| Transfer to inventories | **–** | **–** | **(1,787)** | **–** | **(5)** | **(1,792)** |
| Change in fair value less costs to sell | **–** | **–** | **351** | **–** | **(1,440)** | **(1,089)** |
| Exchange realignment | **–** | **–** | **185** | **151** | **110** | **446** |
| At 31 December 2017 | **–** | **–** | **4,996** | **4,077** | **4,454** | **13,527** |

The numbers of biological assets at the end of the reporting period are summarised as follows:

| | 2017 | 2016 |
|---|---|---|
| Broilers | **261,169** | 210,267 |
| Pig breeders | **675** | 590 |
| Pig commodities | **4,371** | 3,183 |
| | **266,215** | 214,040 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 19. Biological Assets (continued)

Analysed for reporting purposes as:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Current assets | **9,450** | 6,189 |
| Non-current assets | **4,077** | 2,989 |
| At the end of the reporting period | **13,527** | 9,178 |

The pig breeders are primarily held to produce agricultural produce and are classified as non-current assets.

In accordance with the valuation report issued by Stern Appraisal Limited, an independent professionally qualified valuer, the fair value of biological assets is determined with reference to the market-determined prices, species, growing conditions and cost incurred. Each year, the Group appoints an external valuer to be responsible for the external valuations of the Group's biological assets. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

### FAIR VALUE HIERARCHY

The biological assets were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

Below is a summary of the valuation technique used and the key input to the valuation of biological assets:

| | Valuation technique | Significant unobservable input | Range 2017 | Range 2016 |
|---|---|---|---|---|
| Biological assets | Market approach | Estimated selling price (per kg/unit) | **RMB15 to RMB2,225** | RMB15 to RMB3,300 |

A significant increase/decrease in the estimated selling price would result in a significant increase/decrease in the fair value of the biological assets.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 20. Deferred tax

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

### DEFERRED TAX ASSETS

| | Depreciation in excess of related deprecation allowance HK$'000 | Losses available for offsetting against future taxable profits HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2016 | 36,216 | 52,373 | 88,589 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10) | 989 | (969) | 20 |
| Exchange realignment | (129) | (70) | (199) |
| Gross deferred tax assets at 31 December 2016 and 1 January 2017 | **37,076** | **51,334** | **88,410** |
| Deferred tax credited to the statement of profit or loss during the year (note 10) | **646** | **14,140** | **14,786** |
| Exchange realignment | **153** | **113** | **266** |
| Gross deferred tax assets at 31 December 2017 | **37,875** | **65,587** | **103,462** |

### DEFERRED TAX LIABILITIES

| | Depreciation allowance in excess of related deprecation HK$'000 | Withholding tax HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2016 | 9,445 | 8,555 | 18,000 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) | (1,143) | 865 | (278) |
| Exchange realignment | (26) | – | (26) |
| Gross deferred tax liabilities at 31 December 2016 and 1 January 2017 | **8,276** | **9,420** | **17,696** |
| Deferred tax credited to the statement of profit or loss during the year (note 10) | **(692)** | **(6)** | **(698)** |
| Gross deferred tax liabilities at 31 December 2017 | **7,584** | **9,414** | **16,998** |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 20. Deferred Tax (continued)

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

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **102,850** | 87,589 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **(16,386)** | (16,875) |
| | **86,464** | 70,714 |

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits is probable. The Group also has tax losses arising in Hong Kong of HK$77,338,000 (2016: HK$77,330,000), subject to agreement by the Hong Kong Inland Revenue Department that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$66,083,000 (2016: HK$51,353,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$21,963,000 (2016: HK$21,977,000) as at 31 December 2017.

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

## 21. Inventories

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Food and beverages, and other operating items for restaurant and bakery operations | **135,317** | 135,604 |
| Frozen poultry farm products | **4,860** | 360 |
| Raw materials for the production of animal feed | **5,030** | 7,643 |
| | **145,207** | 143,607 |

# NOTES TO FINANCIAL STATEMENTS

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## 22. Trade Receivables

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group also grants a credit period between 30 to 90 days to certain customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Within 1 month | **34,290** | 19,607 |
| 1 to 3 months | **8,458** | 7,101 |
| Over 3 months | **3,599** | 4,295 |
| | **46,347** | 31,003 |

An ageing analysis of the trade receivables as at the end of the reporting period, based on the payment due date and that are not individually nor collectively considered to be impaired, is as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **36,222** | 18,280 |
| Less than 1 month past due | **5,140** | 5,986 |
| 1 to 3 months past due | **1,636** | 2,730 |
| Over 3 months past due | **3,349** | 4,007 |
| | **46,347** | 31,003 |

Receivables that were neither past due nor impaired mainly relate to credit card receivables from banks for which 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.

# NOTES TO FINANCIAL STATEMENTS

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## 23. Prepayments, Deposits and Other Receivables

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Prepayments | 43,077 | 44,339 |
| Prepaid land lease payments (note 14) | 2,309 | 2,199 |
| Deposits and other receivables | 99,032 | 95,321 |
| | 144,418 | 141,859 |

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

Included in the Group's other receivables are amounts due from the Group's associates of HK$995,000 (2016: HK$800,000) which are unsecured, interest-free and repayable on demand.

## 24. Cash and Cash Equivalents and Pledged Time Deposits

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Cash and bank balances | 472,364 | 439,375 |
| Time deposits | 71,888 | 65,734 |
| | 544,252 | 505,109 |
| Less: Pledged deposits for short term bank borrowings | (13,781) | (12,660) |
| Cash and cash equivalents | 530,471 | 492,449 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$351,045,000 (2016: HK$347,650,000). 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 fifteen days and three months (2016: six months and one year) depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 25. Trade Payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Within 1 month | **143,468** | 167,052 |
| 1 to 2 months | **52,583** | 23,923 |
| 2 to 3 months | **10,458** | 8,699 |
| Over 3 months | **10,199** | 15,717 |
| | **216,708** | 215,391 |

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

## 26. Other Payables and Accruals

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Deferred rental | **84,138** | 82,769 |
| Receipt in advance from customers | **62,970** | 66,121 |
| Accrued payroll | **111,273** | 104,058 |
| Other payable and accruals | **91,705** | 85,509 |
| Deferred income in respect of government grants and sponsorship income | **9,433** | 7,043 |
| | **359,519** | 345,500 |
| Less: Portion classified as non-current liabilities | **(90,621)** | (84,313) |
| Portion classified as current liabilities | **268,898** | 261,187 |

Other payables are non-interest-bearing.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 27. Interest-Bearing Bank Borrowings

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | HK$'000 | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| – Bank loans, secured | 1.9–2.6 | 2018 | 143,333 | 1.8–2.5 | 2017 | 115,734 |
| – Current portion of long term bank loans, secured | 2.1 | 2018 | 8,584 | 2.6 | 2017 | 16,864 |
| – Long term bank loans repayable on demand, secured (note (i)) | 2.2–2.6 | 2019-2020 | 46,667 | 2.2–2.5 | 2019-2020 | 46,831 |
| | | | 198,584 | | | 179,429 |
| **Non-current** | | | | | | |
| – Bank loans, secured | | | – | 2.6 | 2018 | 8,597 |
| | | | 198,584 | | | 188,026 |

Analysed into:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Bank loans repayable: | | |
| Within one year or on demand (note (i)) | 198,584 | 179,429 |
| In the second year | – | 8,597 |
| | 198,584 | 188,026 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 27. Interest-Bearing Bank Borrowings (continued)

Notes:

(i) Certain term loans of the Group with a carrying amount of HK$90,000,000 (2016: HK$73,565,000) containing repayment on demand clauses. Accordingly, a portion of those loans due for repayment after one year with a carrying amount of HK$46,667,000 (2016: HK$46,831,000) have been classified as current liabilities in accordance with HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause.* Ignoring the effect of any repayment on demand clause and based on the maturity terms of the loans, the interest-bearing bank borrowings are repayable as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Bank loans repayable: | | |
| Within one year | **151,917** | 132,598 |
| In the second year | **36,667** | 35,333 |
| In the third to fifth years, inclusive | **10,000** | 20,095 |
| | **198,584** | 188,026 |

(ii) All bank loans were denominated in Hong Kong dollars.

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

(a) mortgages over certain of the Group's leasehold land and buildings situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of HK$85,498,000 (2016: HK$87,403,000);

(b) mortgages over certain of the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of HK$18,700,000 (2016: HK$20,300,000); and

(c) the pledge of certain of the Group's time deposits amounting to HK$13,781,000 (2016: HK$12,660,000).

# NOTES TO FINANCIAL STATEMENTS

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## 28. Finance Lease Payable

The Group leases an equipment for its operations. The lease is classified as a finance lease and has a remaining lease term of five years.

At 31 December 2017, the Group's total future minimum lease payments under the finance lease and its present value was as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable: | | | | |
| Within one year | **207** | 196 | **186** | 189 |
| In the second year | **201** | 160 | **186** | 157 |
| In the third to fifth years, inclusive | **432** | – | **418** | – |
| Total minimum finance lease payments | **840** | 356 | **790** | 346 |
| Future finance charges | **(50)** | (10) | | |
| Total net finance lease payable | **790** | 346 | | |
| Portion classified as current liabilities | **(186)** | (189) | | |
| Non-current portion | **604** | 157 | | |

The above finance lease is denominated in Renminbi and bears interest at a rate of 3.0% (2016: 3.0%) per annum.

## 29. Due to Non-Controlling Shareholders of Subsidiaries

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest-free and not repayable within one year.

# NOTES TO FINANCIAL STATEMENTS

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## 30. Issued Capital

| | Company 2017 HK$'000 | Company 2016 HK$'000 |
|---|---|---|
| Authorised: | | |
| 23,400,000,000 (2016: 23,400,000,000) ordinary shares of HK$0.10 each | **2,340,000** | 2,340,000 |
| Issued and fully paid: | | |
| 1,016,611,000 (2016: 1,016,611,000) ordinary shares of HK$0.10 each | **101,661** | 101,661 |

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| As at 1 January 2016 | 1,021,611,000 | 102,161 | 335,220 | 437,381 |
| Shares repurchased | (5,000,000) | (500) | (8,596) | (9,096) |
| As at 31 December 2016, 1 January 2017 and 31 December 2017 | **1,016,611,000** | **101,661** | **326,624** | **428,285** |

During the year ended 31 December 2016, the Company repurchased 5,000,000 of its ordinary shares on the Stock Exchange at a total consideration of HK$9,096,000. All ordinary shares repurchased in the prior year were cancelled and the issued share capital of the Company was reduced by the par value of the repurchased ordinary shares so cancelled. The premium and transaction costs paid on the repurchase of the shares of HK$8,500,000 and HK$96,000, respectively, were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

# NOTES TO FINANCIAL STATEMENTS

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## 31. Share Option Schemes

### SHARE OPTIONS

The Company operated three share option schemes, namely Pre-IPO Share Option Scheme, Share Option Scheme and 2017 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 motivating eligible participants to work towards enhancing the value of the Group for the benefits of the Group and the shareholders as a whole. No further options could be granted under the Pre-IPO Share Option Scheme upon the listing of the Company and all the outstanding share options granted under Pre-IPO Share Option Scheme were lapsed or forfeited during the year ended 31 December 2017. The Share Option Scheme expired on 8 June 2017 and 2017 Share Option Scheme effective on 25 May 2017, unless otherwise forfeited or amended, will remain in force for 10 years from that date.

Eligible participants of the Schemes include the Company's directors, including executive directors, non-executive directors and independent non-executive directors, employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group who, in the opinion of the board of directors, have contributed or will contribute to the Group.

The maximum number of unexercised share options currently permitted to be granted under the 2017 Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on the date of adoption of the 2017 Share Option Scheme on 25 May 2017. The maximum number of shares issuable under share options to each eligible participant in the 2017 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting.

Share options granted under the Schemes to a director, chief executive or substantial shareholder of the Company, or to any of their 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 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, and may commence from the date of the offer of the share options, and ends on a date which is not later than 10 years from the date of the offer of the share options.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 31. Share Option Schemes (Continued)

### PRE-IPO SHARE OPTION SCHEME

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

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

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

Movements in the number of share options granted under the Pre-IPO Share Option Scheme were as follows:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | **1.59** | **3,220** | 1.59 | 3,520 |
| Forfeited during the year | **1.59** | **(220)** | 1.59 | (300) |
| Lapsed during the year | **1.59** | **(3,020)** | 1.59 | – |
| At 31 December | **1.59** | **–** | 1.59 | 3,220 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 31. Share Option Schemes (Continued)

### PRE-IPO SHARE OPTION SCHEME (CONTINUED)

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

| | Number of options '000 | Exercise price HK$ per share | Exercise period |
|---|---|---|---|
| 2017 | – | 1.59 | 29 June 2009 to 28 June 2017 |
| 2016 | 3,220 | 1.59 | 29 June 2009 to 28 June 2017 |

During the year, no share options were granted (2016: Nil). 200,000 options were forfeited upon the termination of employment and 3,020,000 options were lapsed during the year as a result of expiration of the Pre-IPO Share Option Scheme on 28 June 2017. Forfeited and lapsed share options with an aggregate carrying amount of HK$6,205,000 (2016: HK$577,000) were transferred from the share option reserve to retained profits during the year.

### SHARE OPTION SCHEME

The exercise price of the share options under the Share Option Scheme is HK$2.08 per share and the share options are exercisable in the following manner:

| Vesting period of the relevant percentage of the options | Maximum percentage of options exercisable |
|---|---|
| From 2 December 2016 to 1 December 2017 (both days inclusive) | 50 |
| From 2 December 2016 to 1 December 2018 (both days inclusive) | 50 |

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

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

Movements in the number of share options granted under the Share Option Scheme were as follows:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | **2.08** | **20,050** | 2.08 | – |
| Granted and accepted during the year | **2.08** | **–** | 2.08 | 20,130 |
| Forfeited during the year | **2.08** | **(2,350)** | 2.08 | (80) |
| At 31 December | **2.08** | **17,700** | 2.08 | 20,050 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 31. Share Option Schemes (Continued)

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

| | Number of options '000 | Exercise price HK$ per share | Exercise period |
|---|---|---|---|
| 2017 | 17,700 | 2.08 | 2 December 2017 to 1 December 2026 |
| 2016 | 20,050 | 2.08 | 2 December 2017 to 1 December 2026 |

The fair value of the share options granted under the Share Option Scheme in 2016 was approximately HK$9,534,000 (HK$0.47 each). The Group recognised a share option expense of approximately HK$6,389,000 (2016: approximately HK$586,000) during the year ended 31 December 2017. The forfeited share options with an aggregate carrying amount of approximately HK$527,000 (2016: approximately HK$2,000) was transferred from the share option reserve to retained profits during the year.

The fair value of equity-settled share options granted during the year ended 31 December 2016 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 2016:

| | 2016 |
|---|---|
| Dividend yield (%) | 5.60 |
| Historical volatility (%) | 34 |
| Risk-free interest rate (%) | 2.24 |
| Expected life of options (years) | 2.8 |
| Weighted average share price (HK$ per share) | 2.08 |

The suboptimal exercise factor is based on the historical data over the past years 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.

### 2017 SHARE OPTION SCHEME

The exercise price of the share options under the 2017 Share Option Scheme is determinable by the board of directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

No share options under the 2017 Share Option Scheme were granted during the year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 31. Share Option Schemes (Continued)

As at the end of the reporting period, the outstanding share options of the Schemes were as follows:

| | Number of outstanding share options | |
|---|---|---|
| | **2017** | 2016 |
| | **'000** | '000 |
| Pre-IPO Share Option Scheme | **–** | 3,220 |
| Share Option Scheme | **17,700** | 20,050 |
| | **17,700** | 23,270 |

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 17,700,000 (2016: 23,270,000) additional ordinary shares of the Company and additional share capital of HK$1,770,000 (2016: HK$2,327,000) and share premium of HK$35,046,000 (2016: HK$44,497,000) (before share issue expenses).

At the date of approval of these financial statements, the Company had no share options outstanding under 2017 Share Option Scheme and 17,700,000 share options outstanding under the Share Option Scheme, represented approximately 1.74% of the Company's shares in issue as at that date.

## 32. Reserves

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 40 of the financial statements.

### CAPITAL RESERVE

The capital reserve represents the waiver of an amount due to a 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

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

# NOTES TO FINANCIAL STATEMENTS

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## 33. Notes to the Consolidated Statement of Cash Flows

### (A) MAJOR NON-CASH TRANSACTIONS:

(i) 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. Accordingly, the Group has accrued and capitalised the estimated restoration cost of HK$521,000 (2016: HK$12,000) for such obligations during the year.

(ii) The Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$929,000 (2016: Nil).

### (B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Interest-bearing bank borrowings HK$'000 | Finance lease payable HK$'000 | Due to non-controlling shareholders of subsidiaries HK$'000 |
|---|---|---|---|
| At 1 January 2017 | **188,026** | **346** | **22,474** |
| Changes from financing cash flows | **10,558** | **(502)** | **(3,076)** |
| New finance lease | **–** | **929** | **–** |
| Foreign exchange movement | **–** | **17** | **530** |
| At 31 December 2017 | **198,584** | **790** | **19,928** |

## 34. Contingent Liabilities

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

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Bank guarantees given in lieu of utility and property rental deposits | **18,958** | 23,005 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 35. Operating Lease Arrangements

### (A) AS LESSOR

The Group leases its investment properties (note 15) and sub-leases a property to third parties under operating lease arrangements, with leases negotiated for terms ranging from one month to three years. Certain leases are terminable with notice periods given by either the Group or the lessees. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Within one year | **4,003** | 32 |
| In the second to fifth years, inclusive | **2,214** | – |
| | **6,217** | 32 |

### (B) AS LESSEE

The Group leases certain of its office premises and restaurant and bakery properties under operating lease arrangements, with lease terms ranging from one to fifty years and certain of the leases contain renewal options.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Within one year | **360,590** | 325,370 |
| In the second to fifth years, inclusive | **743,941** | 625,659 |
| Beyond five years | **307,206** | 327,092 |
| | **1,411,737** | 1,278,121 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 36. Commitments

In addition to the operating lease commitments detailed in note 35(B) above, the Group had the following capital commitments at the end of the reporting period:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Leasehold improvements, furniture, fixtures and equipment | **6,890** | 14,197 |
| Buildings | **15,972** | 21,478 |
| | **22,862** | 35,675 |

## 37. Related Party Transactions

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

| | Notes | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| Rental expense to a related party | (i) | **48** | 48 |
| Management fee from an associate | (ii) | **560** | – |

Notes:

(i) The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, was charged based on mutually agreed terms at a monthly fixed amount of HK$4,000 (2016: HK$4,000).

(ii) The management fee was charged to an associate based on 3% of gross receipt (2016: Nil).

**(B)** Compensation of key management personnel of the Group

The compensation of key management personnel of the Group for each reporting period represented the directors' emoluments as disclosed in note 8 to the financial statements.

The related party transaction mentioned in note A(i) above constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 38. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### FINANCIAL ASSETS

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Loans and receivables: | | |
| Rental deposits | **109,606** | 99,889 |
| Trade receivables | **46,347** | 31,003 |
| Financial assets included in prepayments, deposits and other receivables | **99,032** | 95,321 |
| Pledged deposits | **13,781** | 12,660 |
| Cash and cash equivalents | **530,471** | 492,449 |
| | **799,237** | 731,322 |

### FINANCIAL LIABILITIES

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Financial liabilities at amortised cost: | | |
| Trade payables | **216,708** | 215,391 |
| Financial liabilities included in other payables and accruals | **275,842** | 260,205 |
| Interest-bearing bank borrowings | **198,584** | 188,026 |
| Finance lease payable | **790** | 346 |
| Due to non-controlling shareholders of subsidiaries | **19,928** | 22,474 |
| | **711,852** | 686,442 |

## 39. Fair Value and Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits, cash and cash equivalents, trade payables, current portion of financial liabilities included in other payables and accruals, interest-bearing bank borrowings and a finance lease payable approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 39. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

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

The fair values of rental deposits, the non-current portion of financial liabilities included in other payables and accruals, interest-bearing bank borrowings, a finance lease payable and amounts due to non-controlling shareholders of subsidiaries have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for a finance lease payable and interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant. In the opinion of the directors, their carrying amounts are not significantly different from their respective fair values.

## 40. Financial Risk Management Objectives and Policies

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

### INTEREST RATE RISK

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

For Hong Kong dollar floating-rate borrowings, assuming that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year with all other variables held constant, a 50 basis point increase/decrease in interest rates at 31 December 2017 and 2016 would have decreased/increased the Group's profit before tax by HK$993,000 and HK$940,000, respectively.

### CREDIT RISK

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

The credit risk of the Group's other financial assets, which mainly comprise cash and bank balances, pledged deposits, deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 40. Financial Risk Management Objectives and Policies (Continued)

### FOREIGN CURRENCY RISK

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

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

### LIQUIDITY RISK

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

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | Repayable on demand/ no fixed terms of repayment HK$'000 | Less than 1 year HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
| Trade payables | – | 216,708 | – | 216,708 |
| Other payables and accruals | – | 201,280 | 74,562 | 275,842 |
| Interest-bearing bank borrowings (note) | 190,000 | 8,614 | – | 198,614 |
| Finance lease payable | – | 207 | 633 | 840 |
| Due to non-controlling shareholders of subsidiaries | – | – | 19,928 | 19,928 |
| | 190,000 | 426,809 | 95,123 | 711,932 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 40. Financial Risk Management Objectives and Policies (Continued)

### LIQUIDITY RISK (CONTINUED)

| | 2016 | | | |
|---|---|---|---|---|
| | Repayable on demand/ no fixed terms of repayment HK$'000 | Less than 1 year HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
| Trade payables | – | 215,391 | – | 215,391 |
| Other payables and accruals | – | 188,959 | 71,246 | 260,205 |
| Interest-bearing bank borrowings (note) | 164,910 | 17,270 | 8,634 | 190,814 |
| Finance lease payable | – | 196 | 160 | 356 |
| Due to non-controlling shareholders of subsidiaries | – | – | 22,474 | 22,474 |
| | 164,910 | 421,816 | 102,514 | 689,240 |

Note:

Included in the above interest-bearing bank borrowings are term loans with a carrying amount of HK$90,000,000 (2016: HK$73,565,000), which loan agreements contain a repayment on demand clause giving the bank the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the total amount is classified as "repayable on demand". Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

In accordance with the terms of the loans which contain a repayment on demand clause, the maturity profile of the interest-bearing bank borrowings as at the end of the reporting period, based on the contractual undiscounted payments and ignoring the effect of any repayment on demand clause, is as follows:

| | **Less than 1 year** HK$'000 | **1 to 5 years** HK$'000 | **Over 5 years** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2017** | **153,534** | **47,176** | **–** | **200,710** |
| As at 31 December 2016 | 134,380 | 56,434 | – | 190,814 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 40. Financial Risk Management Objectives and Policies (Continued)

### CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. 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 required to comply with certain externally imposed capital requirements set out in certain of its banking facility agreements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

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

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Total borrowings | **199,374** | 188,372 |
| Total equity attributable to owners of the parent | **1,743,944** | 1,751,890 |
| Gearing ratio | **11.4%** | 10.8% |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 41. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | **445,350** | 446,036 |
| CURRENT ASSETS | | |
| Prepayments | **200** | 249 |
| Due from a subsidiary | **482,979** | 522,580 |
| Cash and cash equivalents | **2,139** | 2,432 |
| Total current assets | **485,318** | 525,261 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **1,254** | 1,124 |
| NET CURRENT ASSETS | **484,064** | 524,137 |
| Net assets | **929,414** | 970,173 |
| EQUITY | | |
| Issued capital | **101,661** | 101,661 |
| Reserves (note) | **827,753** | 868,512 |
| Total equity | **929,414** | 970,173 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2017

## 41. Statement of Financial Position of the Company (Continued)

Note:

A summary of the Company's reserves is as follows:

| | Share premium account HK$'000 | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | Other reserve* HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 335,220 | 6,782 | 9 | 427,527 | 66,581 | 836,119 |
| Profit and total comprehensive income for the year | – | – | – | – | 162,976 | 162,976 |
| Equity-settled share option arrangement | – | 586 | – | – | – | 586 |
| Transfer of share option reserve upon forfeiture of share options | – | (579) | – | – | – | (579) |
| Repurchase of shares | (8,596) | – | 500 | – | (500) | (8,596) |
| Final 2015 dividend | – | – | – | – | (60,997) | (60,997) |
| Interim 2016 dividend | – | – | – | – | (60,997) | (60,997) |
| At 31 December 2016 and 1 January 2017 | **326,624** | **6,789** | **509** | **427,527** | **107,063** | **868,512** |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **–** | **117,159** | **117,159** |
| Equity-settled share option arrangement | **–** | **6,389** | **–** | **–** | **–** | **6,389** |
| Transfer of share option reserve upon forfeiture and lapse of share options | **–** | **(6,732)** | **–** | **–** | **–** | **(6,732)** |
| Final 2016 dividend | **–** | **–** | **–** | **–** | **(60,997)** | **(60,997)** |
| Special 2016 dividend | **–** | **–** | **–** | **–** | **(40,664)** | **(40,664)** |
| Interim 2017 dividend | **–** | **–** | **–** | **–** | **(55,914)** | **(55,914)** |
| At 31 December 2017 | **326,624** | **6,446** | **509** | **427,527** | **66,647** | **827,753** |

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

## 42. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2018.

# INVESTMENT PROPERTIES

| Location | Existing use | Term of lease | Attributable interest of the Group |
|---|---|---|---|
| Flat A on 11th Floor and the balcony appertaining thereto, Wealth House, 108 Castle Peak Road, Cheung Sha Wan, Kowloon | Residential | Medium | 100% |
| Car Parking Space No. 64 in the Basement, Causeway Center, 28 Harbour Road, Wanchai, Hong Kong | Commercial | Long | 100% |
| Car Parking Spaces Nos. 107, 109, 110, 120, 121, 122, 123, 125, 126 and 127 on 1st Basement, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong | Commercial | Long | 100% |

# FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| REVENUE | **4,025,280** | 4,287,166 | 4,546,478 | 4,489,244 | 4,320,453 |
| Cost of sales | **(3,635,384)** | (3,766,225) | (4,049,234) | (3,953,628) | (3,704,465) |
| Gross profit | **389,896** | 520,941 | 497,244 | 535,616 | 615,988 |
| Other income and gains, net | **31,361** | 19,502 | 26,462 | 22,786 | 26,599 |
| Selling and distribution expenses | **(116,186)** | (114,605) | (105,497) | (98,652) | (98,185) |
| Administrative expenses | **(184,525)** | (191,966) | (195,100) | (194,116) | (186,967) |
| Other expenses | **(12,064)** | (12,743) | (19,682) | (10,817) | (15,745) |
| Finance costs | **(3,902)** | (5,185) | (4,618) | (3,340) | (3,717) |
| Share of profits/(losses) of associates, net | **3,054** | 512 | (2) | (1) | (2) |
| PROFIT BEFORE TAX | **107,634** | 216,456 | 198,807 | 251,476 | 337,971 |
| Income tax expense | **(20,898)** | (44,530) | (37,445) | (50,818) | (64,640) |
| PROFIT FOR THE YEAR | **86,736** | 171,926 | 161,362 | 200,658 | 273,331 |
| Attributable to: | | | | | |
| Owners of the parent | **89,082** | 177,845 | 171,323 | 207,368 | 274,204 |
| Non-controlling interests | **(2,346)** | (5,919) | (9,961) | (6,710) | (873) |
| | **86,736** | 171,926 | 161,362 | 200,658 | 273,331 |

## Assets, Liabilities and Non-Controlling Interests

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **2,569,412** | 2,559,213 | 2,671,712 | 2,617,071 | 2,610,267 |
| TOTAL LIABILITIES | **(828,175)** | (807,725) | (883,703) | (812,899) | (868,481) |
| NON-CONTROLLING INTERESTS | **2,707** | 402 | (6,163) | (16,756) | (23,700) |
| | **1,743,944** | 1,751,890 | 1,781,846 | 1,787,416 | 1,718,086 |

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