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

ANNUAL REPORT

2016

* For identification purposes only

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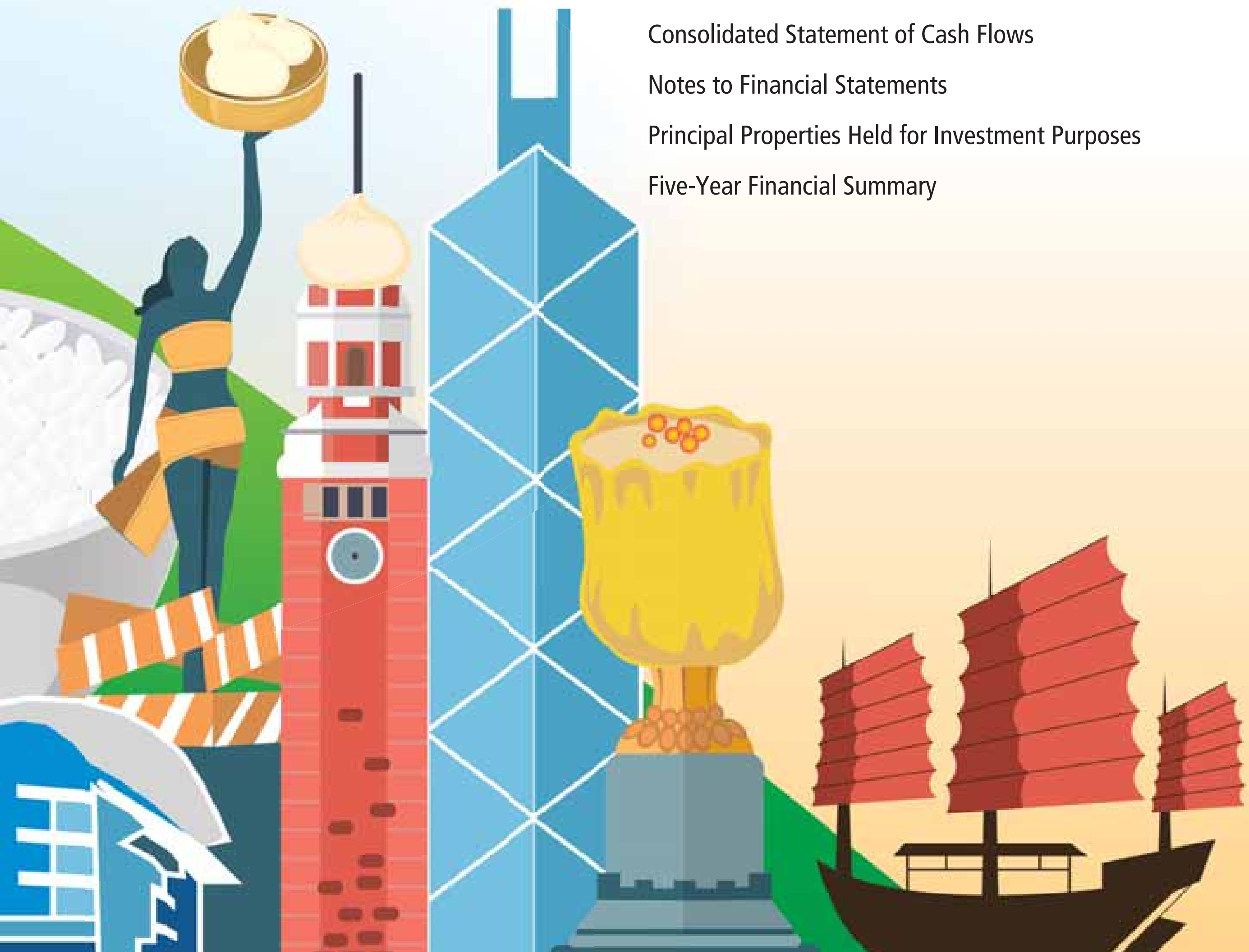

CORPORATE INFORMATION

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	2016 HK$'000	2015 HK$'000	Increase/ (Decrease) in %
Performance				
Revenue		**4,287,166**	4,546,478	(5.7%)
Profit attributable to owners of the parent		**177,845**	171,323	3.8%
Gross profit margin		**12.2%**	10.9%	11.9%
Net profit margin	1	**4.1%**	3.8%	7.9%
Per Share Data		**HK cents**	HK cents	
Earnings per share				
– Basic		**17.47**	16.77	4.2%
– Dilutive		**17.46**	16.74	4.3%
Interim dividend per share		**6.00**	6.00	–
Proposed special dividend per share		**4.00**	–	–
Proposed final dividend per share		**6.00**	6.00	–

		2016 HK$'000	2015 HK$'000	Increase/ (Decrease) in %
Total assets		**2,559,213**	2,671,712	(4.2%)
Net assets		**1,751,488**	1,788,009	(2.0%)
Cash and cash equivalents		**492,449**	397,453	23.9%
Net cash	2	**304,423**	117,981	158.0%
Liquidity and Gearing				
Current ratio	3	**1.2**	1.1	9.1%
Quick ratio	4	**1.0**	0.9	11.1%
Gearing ratio	5	**10.8%**	15.7%	(31.2%)
Per Share Data		**HK cents**	HK cents	
Net assets per share	6	**172.29**	175.02	(1.6%)
Net cash per share	7	**29.94**	11.55	159.2%

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 (2015: 1,021,611,000 shares).
7. Net cash per share is calculated based on the number of 1,016,611,000 shares (2015: 1,021,611,000 shares).

FINANCIAL HIGHLIGHTS AND CALENDAR

CALENDAR

18 August 2016	Announcement of interim results
30 March 2017	Announcement of annual results
24 April 2017	Despatch of annual report to shareholders
	Closure of register of members
19 May 2017 to 25 May 2017	for attending the annual general meeting
1 June 2017	for proposed special and final dividend
25 May 2017	Annual general meeting
Dividends	
12 October 2016	Interim: HK6.00 cents per share paid
7 June 2017	Special: HK4.00 cents per share payable
7 June 2017	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 2016.

Despite the generally difficult business conditions and economic-slowdown in Hong Kong and Mainland China, we were able to achieve a number of objectives, including diversify our business, open multi-purpose complexes in Dongguan, unveil Tai Cheong outlets overseas, and not the least of which, celebrate our 25th anniversary. All of these achievements have one common connection: our long-standing commitment to providing customers with good-value, and quality products. This commitment will continue going forward, all the while seizing fresh opportunities, overcoming adversities and refining our strategies to fully optimise our various strengths.

M.I.S.S.: Commencement of our five-year plan

In reaching our 25th anniversary milestone, we did more than just celebration; we took the opportunity to make a thorough assessment of where we stand, and more importantly, where we want to go. We subsequently developed a five-year plan for elevating the Group to the next level. This plan drew inspirations from Peter Drucker, regarded as the founder of modern management, who said, "Purpose of business is to create and keep a customer…" and "Marketing and innovation produce results; all the rest are costs…".

Building on his insight, we developed a four-pronged approach that is encapsulated in the acronym "M.I.S.S.", which stands for ***Marketing, Innovation, Service and Succession***. With respect to **Marketing**, we will seek to consolidate the Tao Heung brand while repositioning our ancillary brands for promoting and launching innovative products and dining ambiences in Hong Kong. In Mainland China, we will leverage O2O and e-commerce trends to attract the youth demographic, and thereby diversifying our revenue streams. Concurrently, we will promote Tao Heung to the general public and business customers as the preferred brand for banquets in China. By building our retail and wholesale operations, Tao Heung will thus be able to broaden its distribution channels, optimise production and capture greater market share. Given that we have our own state-of-the-art logistics centres, we certainly have sound support for fulfilling all of our business objectives.

Innovation is certainly an essential component of our five-year plan as well, especially in view of the rapid changes that the catering industry has undergone in the past few years. To achieve this we will continue to automate. Automation delivers key advantages including controlling costs and ensuring quality, which are exemplified by our centralised logistics centre. Moreover, it enables us to have the capacity to operate the packaged food (wholesale and

CHAIRMAN'S STATEMENT

retail) business, as well as explore other business opportunities. Aside from technology, innovation also involves changing the perspectives of our own staff; hence, we will call upon the management of each restaurant to take greater accountability of their premises and be "individual bosses" given that they all have individual strengths which should not be squandered. And we will duly support them through various incentive programmes. Besides internal development, we will continue to examine opportunities to cooperate with other catering brands, be it local or international, in order to launch themed restaurants that facilitate our horizontal integration.

As for the matter of **Service**, we have long been service-centric as evidenced by our strategies dating back to 1997, which expanded to streamlining operations and optimising businesses. We are now going back to our roots. As we are in the service sector, we will redouble efforts towards enhancing interaction with our customers, and this will start with encouraging our staff, particularly frontline, to leave a positive "wow" impression. We will place direct responsibility on the directors and managers of each restaurant to enhance service quality, and to support their efforts, we will implement an incentive programme for motivating staff. Our objective is to raise the bar for quality to a whole new level for both frontline and backend workers.

In respect of the final element of **Succession**, we will also be employing an integrated scheme complemented by apprenticeship, promotion and appraisal programmes to nurture and retain our valued staff members. These efforts will also go towards instilling a sense of belonging and camaraderie among employees, as well as enhancing their self-worth. As for attracting new talent to become frontline members of the Group, particularly the young generation, we will not only offer the aforementioned programmes, but also more appealing working hours with less overtime so as to have a break-through over one of the traditions in the Chinese catering industries. With the early introduction of central kitchen and automation, we believe we can standardise the working hours and let them enjoy a better work-life balance working environment.

With our five-year plan now set for implementation, we will be grasping business opportunities with added vigour. Though sustaining business growth remains our overriding objective, we also recognise that to lead the catering industry one can never be satisfied with maintaining the status quo.

Appreciation

On behalf of the Board, I wish to take this opportunity to express my utmost gratitude to the entire Tao Heung workforce for their hard work and dedication over the past year. I would also like to thank our many business partners, customers and shareholders for their unstinting support. I trust that the upcoming five-year period will begin a new and even more fruitful relationship between Tao Heung and our many customers.

Chung Wai Ping
Chairman

Hong Kong
30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2016. During the financial year, slowing economic growth in Mainland China and Hong Kong, the former at a pace not seen since 1990 at 6.7%, resulted in persistently lacklustre consumption sentiment. The management has consequently employed an array of cost control measures to support the stable performance of the Group.

Financial Results

Owing to a harsh operating environment that directly impacted on consumer sentiment, total revenue of the Group amounted to HK$4,287.2 million for the year ended 31 December 2016, down from HK$4,546.5 million in 2015. Gross profit margin increased due to the implementation of strict cost controls. However, the Group incurred one-off expenses, including the written off and impairment of items of property, plant and equipment and advertising expenditures relating to its 25th anniversary that amounted to HK$19.2 million. Nevertheless, the combination of the aforementioned cost controls and a favourable tax policy in Mainland China resulted in a significant improvement in the Mainland China operations, as evidenced by a modest increase in the Group's profit after tax of 6.5% and the profit attributable to the owners of the parent amounted to HK$177.8 million (2015: HK$171.3 million). The Hong Kong operations remained the largest revenue contributor of the Group, accounting for 64.8% of total revenue (2015: 64.4%) while its Mainland China counterpart accounted for 35.2% (2015: 35.6%).

The Board has proposed a final dividend of HK6.0 cents (2015: HK6.0 cents) per share. To celebrate the 25th anniversary, a special dividend of HK4.0 cents is also proposed. Together with an interim dividend of HK6.0 cents per share already paid, the total dividend will be HK16.0 cents (2015: HK12.0 cents) per share, which represents a dividend payout ratio of 91.5% (2015: 71.6%).

Hong Kong Operations

Revenue derived from the Hong Kong operations amounted to HK$2,779.6 million (2015: HK$2,925.7 million) for the review year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) totalled HK$293.7 million (2015: HK$334.2 million), while profit attributable to owners of the parent contracted by 16.8% to HK$139.4 million (2015: HK$167.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Aside from continuously weak consumption sentiment, increasing competition and high operating expenses, including rising rental costs in shopping malls found near large residential area and high labour cost have continued to affect members of the catering industry. However, owing to the management's ongoing efforts to streamline operations, the Group has been less severely affected by the aforementioned cost rises. To consolidate operations and increase operational efficiency, a number of restaurants were closed or have undergone restructuring. At the end of the review period, the total number of restaurants was reduced to 67 (2015: 71 shops), while the number of RingerHut and T Café 1954 establishments have remained unchanged. Correspondingly, total operating area has been reduced to 622,200 sq. ft (2015: 663,000 sq. ft) which consequently affected turnover.

Despite the difficult operating environment, the management has placed significant effort on diversifying the restaurant portfolio of the Group. RingerHut and T Café 1954 have continued to attract customers from different age groups. In respect of the Tai Cheong Bakery operation, a total of 23 shops (2015: 28 shops) are operating across the city as at 31 December 2016. Although revenue declined from HK$112.0 million in 2015 to HK$97.2 million in 2016, the management has been exploring various marketing strategies and possible collaborations with other retail brands to diversify its product offerings. It is worth noting that the first Tai Cheong Bakery in Singapore, located at the Takashimaya department store in Ngee Ann City, commenced operation on 1 July 2016 and a café in Holland Village has been in operation since 17 November 2016 – both shops generated profits during the start-up period. The management trusts that this joint partnership will provide stable revenue for the Group going forward.

Given the significant benefits that can be derived from cost controls, particularly apparent during challenging times, the management has closely examined all facets of operation to see where such controls can be best employed. At the same time, additional resources have been invested in the renovation of existing restaurants and promotional campaigns to enhance the Group's competitiveness and to generate greater profit in the long run. Also, a more prudent approach towards restaurant openings is being employed, with the objective of consolidating the Hong Kong operations.

Mainland China Operations

The slowing economy in Mainland China combined with fierce competition affected the Group's top-line performance in the review year, with revenue declining by 7.0% to HK$1,507.6 million (2015: HK$1,620.8 million). However, EBITDA increased from HK$204.8 million in 2015 to HK$241.6 million in 2016. Also, profit attributable to owners of the parent rose from HK$3.8 million in 2015 to HK$38.4 million as at 31 December 2016.

Owing to the changing macro environment in Mainland China, management took a more pragmatic approach to address conditions. As a result, a new business model was created, the centrepiece of which is an integrated complex consisting of a Chinese restaurant, self-owned supermarket, indoor playground, museum and shops, covering an area of over 22,000 sq.m. This family-oriented business model is targeted at middle – to high-income families who are able to access the complex by car (parking facilities are provided). As at 31 December 2016, two integrated complexes are in operation, while a third complex has been opened subsequent to the review year, i.e. January 2017. Originally, the properties were large-scale restaurants of the Group that have been transformed to its current state to optimise operational efficiency and draw in diversified revenue sources.

Also as a means of enhancing its competitiveness in Mainland China, management has continued to introduce technologies to different areas of operation, underscoring its ability to tackle challenges through lateral thinking. With costs continuing to climb due in part to a shortage in labour – the result of higher literacy rate across the country and greater job expectations – particularly in the catering industry, the Group has invested approximately HK$3.9 million in R&D, the result of which has included the launched of a robot, called "Robot Waiter", as well as two other automated machines, namely "Vegetable Frying Machine" and "Seafood Conveying Belt". Such technologies, which have been introduced to some of the Group's restaurants in the country, represent part of the management's long-term investment strategy for addressing the labour shortage.

MANAGEMENT DISCUSSION AND ANALYSIS

Yet a further means of leveraging technology to bolster the Group's performance is through e-commerce, with customers now able to make payments via several mobile platforms. The Group also launches its own mobile application that has an "all in one" feature; enabling customers to obtain a queue number, booking, order food and settle their bill. The management is fully aware that technology is playing an important role in helping young people determine which restaurants they visit or order takeout. Seizing opportunities from this trend, the Group has also started to provide takeaway service through such platforms as, Meituan (美團) and ele.me (餓了嗎). Currently, the takeout business accounts for approximately 5% of segmental revenue, which the management trusts will increase to 8%–10% in the near future.

It is worth noting that during the review year, the Mainland China Government implemented a new tax policy, replacing the previous business tax with a value-added tax as part of its fiscal reform programme. This tax restructuring has benefitted the Group significantly as it has to other large-scale operators. In particular, operating costs are now lower for the Group, resulting in a significant improvement for its Mainland China operations. The management believes that the Group will continue to benefit from the policy in the coming years.

As at 31 December 2016, the Group operated 46 restaurants in Mainland China, representing a net increase of one restaurant over the preceding year. Furthermore, there are 23 Bakerz 180 outlets (2015: 22 outlets) in operation, which generated total revenue of HK$32.4 million (2015: HK$35.9 million) as at the close of 2016. The Bakerz 180 factory was closed down and its operation has been relocated to our logistic centre in Dongguan during the year, which has not only helped to reduce operating costs, but also centralised operations, thereby increasing production efficiency going forward.

Poultry and Peripheral Business

The poultry and peripheral business performed in a stable manner during the reporting year. Performing more favourably was the supermarket business which accounted for a sizeable proportion of segmental revenue. With the introduction of supermarkets by the Group, such operations will enable it to further expand the retail business.

Financial Resources and Liquidity

As at 31 December 2016, the Group's total assets decreased to approximately HK$2,559.2 million (2015: approximately HK$2,671.7 million) while the total equity was approximately HK$1,751.5 million (2015: approximately HK$1,788.0 million).

As at 31 December 2016, the Group had cash and cash equivalents of approximately HK$492.4 million. After deducting total interest-bearing bank borrowings of approximately HK$188.0 million, the Group had a net cash surplus position of approximately HK$304.4 million.

As at 31 December 2016, 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 10.8% (2015: 15.7%).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

Capital expenditure for the year ended 31 December 2016 amounted to approximately HK$185.2 million and capital commitments as at 31 December 2016 amounted to approximately HK$35.7 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 2016, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$23.0 million (2015: approximately HK$23.8 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2016 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 2016, the Group had 8,521 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 the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 31 December 2016, approximately 3,220,000 options were outstanding under the Pre-IPO Share Option Scheme and no share options have been exercised during the year. Also, 20,130,000 options have been granted and accepted pursuant to the Share Option Scheme and 20,050,000 options were outstanding as at 31 December 2016. No share options have been exercised during the year.

Pledge of Assets

As at 31 December 2016, the Group pledged its bank deposits of approximately HK$12.7 million, leasehold land and buildings of approximately HK$87.4 million and investment properties of approximately HK$20.3 million to secure the banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

Both the Hong Kong and Mainland China markets are expected to remain challenging as the global economic downturn persists. Compounding matters for Mainland China will be even slower economic growth, which the International Monetary Fund forecasts will expand by 6.5% in 2017. Hong Kong will continue to experience headwinds as well with the economy growing at between 2–3% according to government estimates, though a possible modest improvement over the 2.1% average that the city has been experiencing over the past three years. The Group will therefore introduce a number of strategies to address the unique condition of each market.

Though consolidation will be the overriding strategy for both the Hong Kong and Mainland China operations as the management aims to raise the efficiency of the Group's business as a whole, it will nonetheless consider opening two to three new restaurants in Hong Kong and up to four restaurants in Mainland China in the coming year. In Hong Kong, the management will also actively seek opportunities for collaboration – initiating joint ventures that bring renowned brands to the city so as to diversify its revenue streams. Already on the table is the launch of Du Hsiao Yueh, a famous Taiwanese restaurant, to open its first branch in Hong Kong in 2017. As for the Mainland China operations, the Group will continue to enhance its e-commerce capabilities, which will include the promotion of a self-developed "Tao Heung App" that will also have an all in one feature. Furthermore, the Group will continue to bolster its takeaway service given the positive uptake over the past year. As for the peripheral business, besides expanding the retail sales from our own supermarkets, the Group will be collaborating with some renowned supermarket operators to supply OEM products in Mainland China, thus creating a new revenue stream for the Group.

The Group remains optimistic about its business development overseas and will continue to expand outside of its traditional markets. Through Tai Cheong bakery, it will leverage its cross-border partnership in Singapore to open up to five stores in the republic in the coming years, followed by Malaysia. The management will also actively explore any opportunities in collaborating with local and overseas catering brands in order to attract new customers and facilitate our growth in the future.

Looking ahead, the management will place tremendous effort on diversifying the Group's existing business portfolio all the while being mindful of achieving sustainable growth. It will also leverage all of the Group's competitive edges to grasp emerging opportunities, and thereby access new revenue streams and delivering greater returns to its shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Chung Wai Ping, aged 57, 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 40 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 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 59, 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 46, 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 55, is an Executive Director and was appointed on 1 March 2007. Mr. Ho is the Deputy Chief Officer 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 59, 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 65, 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 63, 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 the Director of the EMBA Program in the CUHK. Professor Chan is also currently Chairman of the Chinese Medicine Council of Hong Kong and Cantonese Opera Advisory Committee. In addition, he is Member of Chinese Medicine Development Committee, Social Enterprise Advisory Committee, and Cantonese Opera Development Fund Advisory Committee. Besides, he is the Adviser of the Quality Tourism Services Association. Professor Chan has approximately 30 years of experience in the education industry. Professor Chan is also an independent non-executive director Asiaray Media Group Limited, a company listed on the Main Board.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Mak Hing Keung, Thomas, aged 54, 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 also serves as the executive director of Millennium Pacific Group Holdings Limited, a company listed on the GEM 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.

Mr. Ng Yat Cheung, JP, aged 61, 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 62, 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. Tsang Wing Ka, aged 42, 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 48, 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 2016.

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 pages 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 2016.

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 2016

	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	4/4	N/A	N/A	N/A
Non-executive Directors:				
Mr. Fong Siu Kwong	4/4	N/A	1/1	N/A
Mr. Chan Yue Kwong, Michael	4/4	2/2	N/A	1/1
Independent Non-executive Directors:				
Professor Chan Chi Fai, Andrew	4/4	2/2	N/A	1/1
Mr. Mak Hing Keung, Thomas	3/4	2/2	1/1	N/A
Mr. Ng Yat Cheung	4/4	N/A	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 2016:

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 2016, 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 25 May 2017.

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 2016, 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 2016 is set out below:

	Number of Individual
Nil – HK$1,000,000	3

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 2016, the Directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner.

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

CORPORATE GOVERNANCE 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 2016, 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 pages 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 2016 is as follows:

	2016 **HK$'000**	2015 HK$'000
Audit fee		
– provision for the year	**3,150**	3,000
Non-audit service fees	**290**	240
Total	**3,440**	3,240

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 2016.

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 41 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 equipment 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 pages 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 2016 and the Group's financial position at that date are set out in the financial statements on pages 36 to 106.

An interim dividend of HK6.00 cents per ordinary share, totaling approximately HK$60,997,000 were paid on 12 October 2016. The directors recommend the payment of a special dividend of HK4.00 cents per ordinary share and a final dividend of HK6.00 cents per ordinary share, totaling approximately HK$101,661,000 in respect of the year to shareholders on the register of members on 31 May 2017. The proposed special dividend and final dividend for the year ended 31 December 2016 has been approved at the Company's board meeting on 30 March 2017. Details of dividends for the year ended 31 December 2016 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, 19 May 2017 to Thursday, 25 May 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2016 Annual General Meeting. In order to be eligible to attend and vote at the 2016 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, 18 May 2017; and

(ii) On Thursday, 1 June 2017, for the purpose of ascertaining shareholders' entitlements to the proposed special and final dividend. In order to establish the entitlements to the proposed special and 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, 31 May 2017.

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 108. 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 31 and 32 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

During the year, the Company has repurchased a total of 5,000,000 shares on the Stock Exchange and the shares were subsequently cancelled by the Company. Details of the repurchase are disclosed as follows:

Date of Repurchase	Number of Shares Repurchased	Repurchase Price Per Share	
		Highest	Lowest
6 April 2016	5,000,000	HK$1.80	HK$1.80

The above repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. 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 Group's share premium account.

Saved as disclosed above, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries 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. 300,000 options were cancelled 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.

Details of the share options outstanding as at 31 December 2016 which have been granted under the Pre-IPO Share Option Scheme are as follows:

		Number of options					
Name	Date of grant	Options outstanding at 1 January 2016	Granted during the year	Options exercised during the year	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 31 December 2016
Other employees	9 June 2007	3,520,000	–	–	–	(300,000)	3,220,000

REPORT OF THE DIRECTORS

(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. 80,000 options were cancelled upon the termination of employment during the year under review.

Share options granted under the Share Option Scheme 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.

Details of the share options outstanding as at 31 December 2016 which have been granted under the Share Option Scheme are as follows:

		Number of options					
Name	Date of grant	Options outstanding at 1 January 2016	Granted during the year	Options exercised during the year	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 31 December 2016
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	–	18,830,000	–	–	(80,000)	18,750,000

REPORT OF THE DIRECTORS

Distributable Reserves

At 31 December 2016, 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$861,723,000 of which HK$40,664,000 and HK$60,997,000 has been proposed as a special dividend and 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$958,000.

Major Customers and Suppliers

For the year ended 31 December 2016, 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 29.0% and 11.0% 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. Chung Wai Ping, Mr. Wong Ka Wing and Mr. Ho Yuen Wah will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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 pages 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. The Executive Directors will also be entitled to a discretionary bonus provided that the total amount of bonus together with the total salary and benefits to be paid to all Executive Directors in each year ending 31 December shall not exceed three percent of the audited consolidated net profit after tax but before extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus and benefits).

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 Transactions" on pages 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 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 2016.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2016, 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), (b)	–	12,174,222	–	393,174,689	–	405,348,911	39.87
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 2016, 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 2016, 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)	393,174,689	–	393,174,689	38.68
Tin Tao Investments Limited	(a)	–	393,174,689	393,174,689	38.68
BNP Paribas Corporate Services Pte Ltd	(a)	–	393,174,689	393,174,689	38.68
BNP Paribas Singapore Trust Corporation Limited	(a)	–	393,174,689	393,174,689	38.68
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
Value Partners Limited	(d)	66,553,000	–	66,553,000	6.55
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.

(d) These shares were wholly-owned by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Group 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 2016, 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 32 to the financial statements, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or the spouse or children under 18 years of age to acquired benefits by means of the acquisition of shares in, or debentures of the Company, or any other body corporate.

REPORT OF THE DIRECTORS

Continuing Connected Transactions

On 20 November 2015 (after trading hours), 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 Listing Rules. Details of the transactions were disclosed in an announcement published on 20 November 2015.

For the year ended 31 December 2016, the purchases from Baker Group amounted to approximately HK$5,081,000 while the sales to Baker Group amounted to approximately HK$4,275,000, which exceeded the annual cap of HK$1,600,000.

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 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.

REPORT OF THE DIRECTORS

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 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 Company; (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, except for the sales to Baker Group for the year ended 31 December 2016 which exceeded the annual cap of HK$1,600,000 set by the Company, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap disclosed in the announcement dated 20 November 2015 made by the Company in respect of the disclosed continuing connected transactions.

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

	Notes	**2016 HK$'000**	2015 HK$'000
Rental expense to a related party	(i)	**48**	48
Legal fee to an associate	(ii)	**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 (2015: HK$4,000), which are normal commercial terms or no less favourable to the Group than those available from independent third parties.

(ii) The legal fee to Howell & Co., a partnership of which Mr. Fong Siu Kwong, a Non-executive Director of the Company is a partner with effect from 1 October 2016. The fees were charged based on mutually agreed terms which are normal commercial terms or no less favourable to the Group than those available from independent third parties.

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
30 March 2017

INDEPENDENT AUDITOR'S REPORT

EY 安永

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 pages 36 to 106, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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$3.3 million has been recorded to reduce the carrying amount of certain property, plant and equipment of approximately HK$11.5 million to their estimated recoverable amount. Significant judgement was involved in the assessment of the recoverable amount of the property, plant and equipment of those branches, including assumptions on the budgeted gross margin of respective branches and discount rate. 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 2016, the Group recognised deferred tax assets of approximately HK$87.6 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. 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 2016, the carrying value of the Group's biological assets amounted to approximately HK$9.2 million. During the year ended 31 December 2016, the loss in fair value less costs to sell of biological assets amounted to approximately HK$0.5 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. 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

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	5	**4,287,166**	4,546,478
Cost of sales		**(3,766,225)**	(4,049,234)
Gross profit		**520,941**	497,244
Other income and gains, net	5	**19,502**	26,462
Selling and distribution expenses		**(114,605)**	(105,497)
Administrative expenses		**(191,966)**	(195,100)
Other expenses		**(12,743)**	(19,682)
Finance costs	6	**(5,185)**	(4,618)
Share of profits/(losses) of associates, net		**512**	(2)
PROFIT BEFORE TAX	7	**216,456**	198,807
Income tax expense	10	**(44,530)**	(37,445)
PROFIT FOR THE YEAR		**171,926**	161,362
Attributable to:			
Owners of the parent		**177,845**	171,323
Non-controlling interests		**(5,919)**	(9,961)
		171,926	161,362
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	12	**17.47**	16.77
– Diluted (HK cents)	12	**17.46**	16.74

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**171,926**	161,362
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(77,943)**	(54,931)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**93,983**	106,431
Attributable to:		
Owners of the parent	**100,548**	117,024
Non-controlling interests	**(6,565)**	(10,593)
	93,983	106,431

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,323,107**	1,468,003
Prepaid land lease payments	14	**90,483**	77,010
Investment properties	15	**24,100**	21,900
Goodwill	16	**38,803**	39,903
Other intangible asset	17	**1,039**	1,223
Investments in associates	18	**4,014**	1,248
Biological assets	19	**2,989**	3,600
Deferred tax assets	20	**87,589**	87,532
Rental deposits		**99,889**	112,102
Deposits for purchases of items of property, plant and equipment		**52,628**	142,086
Total non-current assets		**1,724,641**	1,954,607
CURRENT ASSETS			
Inventories	21	**143,607**	144,265
Biological assets	19	**6,189**	15,049
Trade receivables	22	**31,003**	25,735
Prepayments, deposits and other receivables	23	**141,859**	114,304
Tax recoverable		**6,805**	7,216
Pledged deposits	24	**12,660**	13,083
Cash and cash equivalents	24	**492,449**	397,453
Total current assets		**834,572**	717,105
CURRENT LIABILITIES			
Trade payables	25	**215,391**	159,831
Other payables and accruals	26	**261,187**	286,114
Derivative financial instrument	27	**–**	1,241
Interest-bearing bank borrowings	28	**179,429**	194,021
Finance lease payable	29	**189**	202
Tax payable		**19,113**	21,995
Total current liabilities		**675,309**	663,404
NET CURRENT ASSETS		**159,263**	53,701
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,883,904**	2,008,308

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	26	**84,313**	94,804
Interest-bearing bank borrowings	28	**8,597**	85,451
Finance lease payable	29	**157**	354
Due to non-controlling shareholders of subsidiaries	30	**22,474**	22,747
Deferred tax liabilities	20	**16,875**	16,943
Total non-current liabilities		**132,416**	220,299
Net assets		**1,751,488**	1,788,009
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**101,661**	102,161
Reserves	33	**1,650,229**	1,679,685
		1,751,890	1,781,846
Non-controlling interests		**(402)**	6,163
Total equity		**1,751,488**	1,788,009

Chung Wai Ping
Director

Leung Yiu Chun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to owners of the parent										
	Notes	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000 (note 33)	Other reserve HK$'000 (note 33)	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 2015		102,161	335,220	110,748	11,056	7,322	9	78,434	1,142,466	1,787,416	16,756	1,804,172
Profit for the year		–	–	–	–	–	–	–	171,323	171,323	(9,961)	161,362
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(54,299)	–	(54,299)	(632)	(54,931)
Total comprehensive income for the year		–	–	–	–	–	–	(54,299)	171,323	117,024	(10,593)	106,431
Transfer of share option reserve upon the forfeiture of share options	32	–	–	–	–	(540)	–	–	540	–	–	–
Final 2014 dividend	11	–	–	–	–	–	–	–	(61,297)	(61,297)	–	(61,297)
Interim 2015 dividend	11	–	–	–	–	–	–	–	(61,297)	(61,297)	–	(61,297)
At 31 December 2015		102,161	335,220*	110,748*	11,056*	6,782*	9*	24,135*	1,191,735*	1,781,846	6,163	1,788,009

		Attributable to owners of the parent										
	Notes	**Issued capital HK$'000**	**Share premium account HK$'000**	**Capital reserve HK$'000 (note 33)**	**Other reserve HK$'000 (note 33)**	**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	32	–	–	–	–	586	–	–	–	586	–	586
Transfer of share option reserve upon the forfeiture of share options	32	–	–	–	–	(579)	–	–	579	–	–	–
Shares repurchased	31	(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

* These reserve accounts comprise the consolidated reserves of HK$1,650,229,000 (2015: HK$1,679,685,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**216,456**	198,807
Adjustments for:			
Interest income	5	**(5,371)**	(3,152)
Fair value gains on investment properties	5	**(2,200)**	(4,600)
Change in fair value less costs to sell of biological assets	7	**511**	(1,846)
Finance costs	6	**5,185**	4,618
Loss/(gain) on disposal of items of property, plant and equipment, net	7	**27**	(900)
Impairment of items of property, plant and equipment	7	**3,307**	10,348
Write-off of items of property, plant and equipment	7	**8,898**	4,158
Amortisation of prepaid land lease payments	7	**1,909**	1,752
Depreciation of property, plant and equipment	7	**315,327**	337,491
Equity-settled share option expense	7	**586**	–
Net loss/(gain) on settlement of derivative financial instruments	7	**(142)**	4,201
Fair value gain on derivative financial instrument – transaction not qualifying as a hedge	5	**–**	(4,980)
Amortisation of other intangible asset	7	**82**	88
Share of (profits)/losses of associates, net		**(512)**	2
		544,063	545,987
Decrease/(increase) in rental deposits		**9,537**	(6,649)
Decrease/(increase) in inventories		**(2,989)**	1,119
Decrease in biological assets		**7,722**	3,052
Decrease/(increase) in trade receivables		**(8,156)**	4,967
Decrease/(increase) in prepayments, deposits and other receivables		**(32,478)**	60
Increase/(decrease) in trade payables		**61,647**	(6,188)
Increase/(decrease) in other payables and accruals		**(22,748)**	12,907
Decrease in derivative financial instruments		**(1,099)**	(4,201)
Cash generated from operations		**555,499**	551,054
Interest paid		**(5,172)**	(4,395)
Hong Kong profits tax paid		**(38,872)**	(28,427)
Overseas taxes paid		**(8,192)**	(19,529)
Net cash flows from operating activities		**503,263**	498,703

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(155,976)**	(257,192)
Deposits paid for purchases of items of property, plant and equipment		**(1,968)**	(131,086)
Additions to prepaid land lease payments		**(21,204)**	(4,695)
Proceeds from disposal of items of property, plant and equipment		**2,261**	1,046
Loan to an associate		**(2,254)**	–
Increase in pledged deposits		**(476)**	(219)
Interest received		**5,371**	2,537
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**12,688**	(65,762)
Net cash flows used in investing activities		**(161,558)**	(455,371)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for repurchase of own shares		**(9,096)**	–
New bank loans		**197,000**	260,500
Repayment of bank loans		**(288,446)**	(174,555)
Capital element of finance lease rental payments		**(210)**	(219)
Interest element of finance lease rental payments		**(13)**	(20)
Dividends paid		**(121,994)**	(122,594)
Increase in an amount due to a non-controlling shareholder of a subsidiary		**500**	–
Net cash flows used in financing activities		**(222,259)**	(36,888)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**119,446**	6,444
Cash and cash equivalents at beginning of year		**331,691**	336,903
Effect of foreign exchange rate changes, net		**(11,762)**	(11,656)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**439,375**	331,691
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**439,375**	331,691
Non-pledged time deposit with original maturity of more than three months when acquired		**53,074**	65,762
Cash and cash equivalents as stated in the consolidated statement of financial position		**492,449**	397,453

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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 2016	2015	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
Sky Castle Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
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

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31 December 2016

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 2016	2015	Principal activities
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
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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016	2015	Principal activities
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
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
Jetfat Investments Limited	Hong Kong	Ordinary HK$291,000	**100%**	100%	Restaurant operations and provision of food catering services
Nature Lion Limited	Hong Kong	Ordinary HK$250,000	**100%**	100%	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

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31 December 2016

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 2016	2015	Principal activities
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
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 Virgin 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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016	2015	Principal activities
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 and sale of livestock
廣州市榮利家禽有限公司**@ Guangzhou Rongli Poultry Co., Ltd.	PRC/Mainland China	RMB500,000	70%	70%	Slaughtering and processing 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
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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016	2015	Principal activities
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
Tang Dynasty Ceramics Co., Limited	Hong Kong	Ordinary HK10,000	**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 2016

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, biological assets and derivative financial instrument 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 2016. 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 2016

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above revised standards has had no significant financial effect on these financial statements.

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*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[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*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Annual Improvements to HKFRS Standards 2014-2016 Cycle	Amendments to a number of HKFRSs[5]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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:

(a) HKFRS 15 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. 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. 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 expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

(b) HKFRS 16 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 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. 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. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

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 asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

INVESTMENTS IN ASSOCIATES (CONTINUED)

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

BUSINESS COMBINATIONS AND GOODWILL (CONTINUED)

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, biological assets and derivative financial instrument 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

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.

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;

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

RELATED PARTIES (CONTINUED)

(b) (continued):

(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.

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 2016

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 2016

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 2016

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 flow 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 2016

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

DERIVATIVE FINANCIAL INSTRUMENTS

Initial recognition and subsequent measurement

The Group uses derivative financial instrument, such as forward currency contract, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portion based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classifications of the underlying hedge item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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 2016

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 2016

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

REVENUE RECOGNITION

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

(a) from restaurant 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.

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 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

SHARE-BASED PAYMENTS (CONTINUED)

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 2016

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 associate 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 Summary of Significant Accounting Policies (continued)

FOREIGN CURRENCIES (CONTINUED)

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 2016

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. Significant Accounting Judgements and Estimates (continued)

ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of goodwill

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

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 valuer has made reference to the 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. Significant Accounting Judgements and Estimates (continued)

ESTIMATION UNCERTAINTY (CONTINUED)

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.

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 2016 and 2015, and certain non-current asset information as at 31 December 2016 and 2015, by geographic area.

(a) Revenue from external customers

	2016 HK$'000	2015 HK$'000
Hong Kong	**2,779,579**	2,925,680
Mainland China	**1,507,587**	1,620,798
	4,287,166	4,546,478

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

(b) Non-current assets

	2016 HK$'000	2015 HK$'000
Hong Kong	**510,378**	573,954
Mainland China	**1,026,785**	1,181,019
	1,537,163	1,754,973

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

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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:

	Notes	2016 HK$'000	2015 HK$'000
Revenue			
Restaurant and bakery operations		**4,054,580**	4,288,386
Sale of food and other items		**150,559**	143,296
Poultry farm operations		**82,027**	114,796
		4,287,166	4,546,478
Other income and gains, net			
Bank interest income		**5,371**	3,152
Government grants*		**2,916**	644
Gross rental income from investment properties		**412**	421
Sponsorship income		**3,725**	4,305
Change in fair value less costs to sell of biological assets	19	**–**	1,846
Fair value gains on investment properties	15	**2,200**	4,600
Gain on disposal of items of property, plant and equipment, net		**–**	900
Net gain on settlement of derivative financial instrument		**142**	–
Fair value gain on derivative financial instrument – transaction not qualifying as a hedge	27	**–**	4,980
Others		**4,736**	5,614
		19,502	26,462

* Various government grants have been received by a subsidiary in connection with setting up certain facilities at a poultry farm. 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:

	2016 HK$'000	2015 HK$'000
Interest on bank loans	**5,172**	4,598
Interest on a finance lease	**13**	20
	5,185	4,618

NOTES TO FINANCIAL STATEMENTS

31 December 2016

7. Profit Before Tax

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**1,386,858**	1,519,237
Depreciation*	13	**315,327**	337,491
Amortisation of land lease payments*	14	**1,909**	1,752
Amortisation of other intangible asset	17	**82**	88
Employee benefit expense* (including directors' remuneration (note 8)):			
Salaries and bonuses		**1,104,040**	1,178,546
Retirement benefit scheme contributions (defined contribution schemes)		**77,231**	81,077
Equity-settled share option expense		**586**	–
		1,181,857	1,259,623
Lease payments under operating leases*:			
Minimum lease payments		**366,195**	369,484
Contingent rents		**6,792**	6,795
		372,987	376,279
Auditors' remuneration		**4,791**	4,711
Loss/(gain) on disposal of items of property, plant and equipment, net		**27**	(900)
Impairment of items of property, plant and equipment#		**3,307**	10,348
Write-off of items of property, plant and equipment		**8,898**	4,158
Changes in fair value less costs to sell of biological assets	19	**511**	(1,846)
Net loss/(gain) on settlement of derivative financial instruments		**(142)**	4,201
Foreign exchange differences, net		**4,111**	2,918

* The cost of sales for the year amounting to HK$3,766,225,000 (2015: HK$4,049,234,000) included depreciation of HK$295,934,000 (2015: HK$315,159,000), amortisation of prepaid land lease payments of HK$1,909,000 (2015: HK$1,752,000), employee benefit expense of HK$1,083,372,000 (2015: HK$1,163,563,000) and lease payments under operating lease of HK$372,738,000 (2015: HK$375,046,000).

Impairment of items of property, plant and equipment was included in "Other expenses" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, 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:

	2016 HK$'000	2015 HK$'000
Fees	1,417	1,485
Other emoluments:		
Salaries	2,721	3,215
Discretionary bonuses	260	257
Equity-settled share option expense	30	–
Retirement benefit scheme contributions	65	79
	3,076	3,551
	4,493	5,036

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, 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 32 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. Directors' Remuneration (continued)

2015	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:					
Mr. Chung Wai Ping	–	200	17	11	228
Mr. Wong Ka Wing	451	216	56	18	741
Mr. Chung Ming Fat*	–	264	–	7	271
Mr. Leung Yiu Chun	–	1,347	113	18	1,478
Ms. Wong Fun Ching*	–	262	–	7	269
Mr. Ho Yuen Wah	–	926	71	18	1,015
	451	3,215	257	79	4,002
Non-executive directors:					
Mr. Fong Siu Kwong	192	–	–	–	192
Mr. Chan Yue Kwong, Michael	192	–	–	–	192
	384	–	–	–	384
Independent non-executive directors:					
Mr. Li Tze Leung*	74	–	–	–	74
Professor Chan Chi Fai, Andrew	192	–	–	–	192
Mr. Mak Hing Keung, Thomas	192	–	–	–	192
Mr. Ng Yat Cheung	192	–	–	–	192
	650	–	–	–	650
	1,485	3,215	257	79	5,036

* Mr. Chung Ming Fat and Ms. Wong Fun Ching resigned as executive directors and Mr. Li Tze Leung resigned as an independent non-executive director of the Company on 21 May 2015. Accordingly, the above directors' remuneration only included remuneration before their resignation as executive directors and independent non-executive director of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

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9. Five Highest Paid Employees

The five highest paid employees during the year included two (2015: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salaries	**2,135**	2,113
Discretionary bonuses	**138**	155
Equity-settled share option expense	**20**	–
Retirement benefit scheme contributions	**54**	54
	2,347	2,322

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	
	2016	2015
Nil to HK$1,000,000	**3**	3

During the year, 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 32 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% (2015: 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.

	2016 HK$'000	2015 HK$'000
Current – Hong Kong		
Charge for the year	**29,275**	36,133
Overprovision in prior years	**(503)**	(403)
Current – Mainland China	**16,056**	6,768
Deferred (note 20)	**(298)**	(5,053)
Total tax charge for the year	**44,530**	37,445

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

10. Income Tax (continued)

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:

	2016		2015	
	HK$'000	%	HK$'000	%
Profit before tax	**216,456**		198,807	
Tax at the Hong Kong statutory tax rate	**35,715**	16.5	32,803	16.5
Difference in tax rates applied for specific provinces in Mainland China	**4,562**		(1,157)	
Effect of withholding tax on 5% or 10% on the distributable profits of the Group's PRC subsidiaries	**865**		383	
Adjustments in respect of current tax of previous years	**(503)**		(403)	
Income not subject to tax	**(2,120)**		(2,619)	
Expenses not deductible for tax	**2,411**		3,678	
Tax losses not recognised	**3,687**		4,745	
Profits attributable to associate	**(85)**		–	
Others	**(2)**		15	
Tax charge at the Group's effective rate	**44,530**	20.6	37,445	18.8

The share of tax attributable to associates amounting to approximately HK$2,000 (2015: Nil) is included in "Share of profits/(losses) of associates, net" in the consolidated statement of profit or loss.

11. Dividends

	2016	2015
	HK$'000	HK$'000
Interim – HK6.00 cents (2015: HK6.00 cents) per ordinary share	**60,997**	61,297
Proposed special – HK4.00 cents (2015: Nil) per ordinary share	**40,664**	–
Proposed final – HK6.00 cents (2015: HK6.00 cents) per ordinary share	**60,997**	61,297
Adjustment to 2015 final dividend*	**(300)**	–
	162,358	122,594

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

The proposed special and final dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

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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 1,017,922,475 (2015: 1,021,611,000) 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 1,017,922,475 (2015: 1,021,611,000), as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 665,151 (2015: 1,809,766) 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:

	2016 **HK$'000**	2015 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**177,845**	171,323

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,017,922,475**	1,021,611,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**665,151**	1,809,766
	1,018,587,626	1,023,420,766

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 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
31 December 2015						
Cost:						
At 1 January 2015	539,442	1,445,754	899,773	16,968	170,071	3,072,008
Additions	2,331	176,093	114,911	113	12,624	306,072
Transfers	61,137	65,589	43,119	–	(169,845)	–
Disposals	–	–	(889)	(3,735)	–	(4,624)
Write-off	–	(80,935)	(30,863)	–	–	(111,798)
Exchange realignment	(10,429)	(32,776)	(23,103)	(193)	(7,351)	(73,852)
At 31 December 2015	592,481	1,573,725	1,002,948	13,153	5,499	3,187,806
Accumulated depreciation and impairment:						
At 1 January 2015	140,572	796,813	568,993	13,434	–	1,519,812
Provided during the year	12,822	191,472	131,719	1,478	–	337,491
Disposals	–	–	(743)	(3,735)	–	(4,478)
Write-off	–	(78,372)	(29,268)	–	–	(107,640)
Impairment	–	10,348	–	–	–	10,348
Exchange realignment	(1,838)	(19,311)	(14,479)	(102)	–	(35,730)
At 31 December 2015	151,556	900,950	656,222	11,075	–	1,719,803
Net book value:						
At 31 December 2015	440,925	672,775	346,726	2,078	5,499	1,468,003

NOTES TO FINANCIAL STATEMENTS

31 December 2016

13. Property, Plant and Equipment (continued)

At 31 December 2016, 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$346,000 (2015: HK$556,000).

As at 31 December 2016, the leasehold land and buildings with an aggregate net carrying amount of HK$87,403,000 (2015: HK$87,691,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 28).

As at 31 December 2016, the Group's management identified certain branches which continued to underperform and estimated corresponding recoverable amount of its property, plant and equipment. Based on these estimates, an impairment loss of HK$3,307,000 (2015: HK$10,348,000) was recognised to write down the carrying amount of the relevant property, plant and equipment to their recoverable amount of HK$8,145,000 (2015: HK$9,367,000). The estimates of the recoverable amount were based on the value in use of the relevant property, plant and equipment, determined using a discount rate of 5.7% (2015:5.1%).

14. Prepaid Land Lease Payments

	2016 **HK$'000**	2015 HK$'000
Carrying amount at 1 January	**78,752**	79,204
Additions	**21,204**	4,695
Recognised during the year	**(1,909)**	(1,752)
Exchange realignment	**(5,365)**	(3,395)
Carrying amount at 31 December	**92,682**	78,752
Current portion included in prepayments, deposits and other receivables (note 23)	**(2,199)**	(1,742)
Non-current portion	**90,483**	77,010

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15. Investment Properties

	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January	**21,900**	17,300
Net gain from a fair value adjustment	**2,200**	4,600
Carrying amount at 31 December	**24,100**	21,900

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 2016 based on valuations performed by DTZ Debenham Tie Leung Limited, an independent professionally qualified valuer, at HK$24,100,000. 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.

The investment properties are leased to third parties under operating lease arrangements, further summary details of which are included in note 36(A) to the financial statements.

At 31 December 2016, the Group's investment properties with a total carrying amount of HK$20,300,000 (2015: HK$18,500,000) were pledged to secure the banking facilities granted to the Group (note 28).

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 (2015: 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 2015:	14,300	3,000	17,300
Net gain from a fair value adjustment recognised in profit or loss	4,200	400	4,600
Carrying amount at 31 December 2015 and 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	**20,700**	**3,400**	**24,100**

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15. Investment Properties (continued)

FAIR VALUE HIERARCHY (CONTINUED)

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 2016	Value 2015
Car parking spaces	Income capitalisation approach	Estimated rental value (per car parking space per month)	**HK$5,500**	HK$5,300
		Capitalisation rate	**3.50%**	3.75%
Residential property	Income capitalisation approach	Estimated rental value (per sq. ft. per month)	**HK$18.5**	HK$18.5
		Capitalisation rate	**3.00%**	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.

16. Goodwill

	2016 HK$'000	2015 HK$'000
Cost at 1 January	**39,903**	40,626
Exchange realignment	**(1,100)**	(723)
Cost and net carrying amount at 31 December	**38,803**	39,903

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.

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16. Goodwill (continued)

IMPAIRMENT TESTING OF GOODWILL (CONTINUED)

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

	2016 HK$'000	2015 HK$'000
Restaurant operations	**16,766**	16,766
Bakery operations	**7,072**	7,072
Property investment	**61**	61
Poultry farm operations	**14,904**	16,004
	38,803	39,903

The recoverable amounts of the cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 5.7% (2015: 5.1%), and the cash flows beyond the five-year period are extrapolated using an average growth rate of 2% (2015: 2%).

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2016 and 2015. 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.

17. Other Intangible Asset

	Trademark	
	2016 HK$'000	2015 HK$'000
Cost at 1 January, net of accumulated amortisation	**1,223**	1,346
Amortisation provided during the year	**(82)**	(88)
Exchange realignment	**(102)**	(35)
At 31 December	**1,039**	1,223
At 31 December:		
Cost	**1,351**	1,453
Accumulated amortisation	**(312)**	(230)
Net carrying amount	**1,039**	1,223

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18. Investments in Associates

	2016 HK$'000	2015 HK$'000
Share of net assets	**1,790**	1,278
Goodwill on acquisition	**122**	122
Provision for impairment	**(152)**	(152)
	1,760	1,248
Loan to an associate	**2,254**	–
	4,014	1,248

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 receivable with an associate is disclosed in note 23 to the financial statements.

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 2016	2015	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%**	–	Production and retail of bakery products

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:

	2016 HK$'000	2015 HK$'000
Share of the associates' profit/(loss) for the year	**512**	(2)
Share of the associates' total comprehensive income/(loss)	**512**	(2)
Aggregate carrying amount of the Group's investments in the associates	**4,014**	1,248

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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 2015	1,343	4,534	6,427	4,041	4,439	20,784
Increase due to purchases	161	1,771	66,711	–	–	68,643
Additional costs incurred	3,779	15,162	26,625	3,883	10,125	59,574
Decrease due to retirement and deaths	(155)	(1,842)	–	–	–	(1,997)
Decrease due to sales and consumptions	(164)	(9,216)	(93,221)	(1,936)	(15,252)	(119,789)
Transfers	(3,728)	3,728	–	(2,213)	2,213	–
Transfer to inventories	–	(9,483)	–	–	–	(9,483)
Change in fair value less costs to sell	(41)	(795)	121	–	2,561	1,846
Exchange realignment	(57)	(182)	(281)	(175)	(234)	(929)
At 31 December 2015 and 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 deaths	**(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	**–**	**–**	**3,929**	**2,989**	**2,260**	**9,178**

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19. Biological Assets (continued)

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

	2016	2015
Immature chicken breeders	**–**	38,320
Mature chicken breeders	**–**	122,316
Broilers	**210,267**	274,912
Pig breeders	**590**	724
Pig commodities	**3,183**	5,264
	214,040	441,536

Analysed for reporting purposes as:

	2016 HK$'000	2015 HK$'000
Current assets	**6,189**	15,049
Non-current assets	**2,989**	3,600
At the end of the reporting period	**9,178**	18,649

The immature chicken breeders and mature chicken breeders are primarily held for further growth for the production of broilers and are classified as current assets. The immature breeders are primarily bred for further growth into mature breeders. The pig breeders are primarily held to produce agricultural produce. Breeder hogs 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.

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19. Biological Assets (continued)

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 (2015: Nil).

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

	Valuation technique	Significant unobservable inputs	Range 2016	Range 2015
Biological assets	Market approach	Estimated selling price (per kg/unit)	**RMB15 to RMB3,300**	RMB24 to RMB2,420

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

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 depreciation allowance HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2015	34,777	50,408	85,185
Deferred tax credited to the statement of profit or loss during the year (note 10)	1,725	2,048	3,773
Exchange realignment	(286)	(83)	(369)
Gross deferred tax assets at 31 December 2015 and 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	**37,076**	**51,334**	**88,410**

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20. Deferred Tax (continued)

DEFERRED TAX LIABILITIES

	Depreciation allowance in excess of related depreciation HK$'000	Withholding tax HK$'000	Total HK$'000
At 1 January 2015	11,140	8,172	19,312
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	(1,663)	383	(1,280)
Exchange realignment	(32)	–	(32)
Gross deferred tax liabilities at 31 December 2015 and 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	**8,276**	**9,420**	**17,696**

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:

	2016 HK$'000	2015 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**87,589**	87,532
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(16,875)**	(16,943)
	70,714	70,589

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$77,330,000 (2015: HK$77,294,000), 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$51,353,000 (2015: HK$36,630,000) 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.

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20. Deferred Tax (continued)

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. At 31 December 2016, deferred tax liabilities of HK$9,420,000 (2015: HK$8,555,000) have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China.

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

21. Inventories

	2016 **HK$'000**	2015 HK$'000
Food and beverages, and other operating items for restaurant and bakery operations	**135,604**	134,701
Frozen poultry farm products	**360**	4,822
Raw materials for the production of animal feeds	**7,643**	4,742
	143,607	144,265

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

	2016 **HK$'000**	2015 HK$'000
Within 1 month	**19,607**	16,188
1 to 3 months	**7,101**	5,124
Over 3 months	**4,295**	4,423
	31,003	25,735

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

	2016 **HK$'000**	2015 HK$'000
Neither past due nor impaired	**18,280**	13,764
Less than 1 month past due	**5,986**	5,098
1 to 3 months past due	**2,730**	2,582
Over 3 months past due	**4,007**	4,291
	31,003	25,735

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.

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23. Prepayments, Deposits and Other Receivables

	2016 HK$'000	2015 HK$'000
Prepayments	**44,339**	49,707
Prepaid land lease payments (note 14)	**2,199**	1,742
Deposits and other receivables	**95,321**	62,855
	141,859	114,304

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

Included in the Group's other receivables was an amount due from an associate of HK$800,000 (2015: Nil) which is unsecured, interest-free and repayable on demand.

24. Cash and Cash Equivalents and Pledged Time Deposits

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**439,375**	331,691
Time deposits	**65,734**	78,845
	505,109	410,536
Less: Pledged deposits for short term bank borrowings	**(12,660)**	(13,083)
Cash and cash equivalents	**492,449**	397,453

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$347,650,000 (2015: HK$253,492,000). 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 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.

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25. Trade Payables

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

	2016 HK$'000	2015 HK$'000
Within 1 month	**167,052**	140,987
1 to 2 months	**23,923**	9,831
2 to 3 months	**8,699**	4,878
Over 3 months	**15,717**	4,135
	215,391	159,831

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

26. Other Payables and Accruals

	2016 HK$'000	2015 HK$'000
Accrued rental	**82,769**	91,676
Receipt in advance from customers	**66,121**	77,711
Accrued payroll	**104,058**	116,976
Other payables and accruals	**85,509**	87,415
Deferred income in respect of government grants and sponsorship income	**7,043**	7,140
	345,500	380,918
Less: Portion classified as non-current liabilities	**(84,313)**	(94,804)
Portion classified as current liabilities	**261,187**	286,114

Other payables are non-interest-bearing.

27. Derivative Financial Instrument

	Liabilities	
	2016 HK$'000	2015 HK$'000
Forward currency contract	**–**	1,241

The Group entered into a forward currency contract to manage its exchange rate exposures. This forward currency contract was not designated for hedge purposes and measured at fair value through profit or loss. Changes in the fair value of the non-hedging currency derivative amounting to HK$4,980,000 were credited to the consolidated statement of profit or loss during the year ended 31 December 2015.

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28. Interest-Bearing Bank Borrowings

	2016			2015		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
– Bank loans, secured	**1.8–2.5**	**2017**	**115,734**	1.5–7.8	2016	157,326
– Current portion of long term bank loans, secured	**2.6**	**2017**	**16,864**	2.7	2016	36,463
– Long term bank loans repayable on demand, secured (note (i))	**2.2–2.5**	**2019-2020**	**46,831**	2.7	2017-2020	232
			179,429			194,021
Non-current						
– Bank loans, secured	**2.6**	**2018**	**8,597**	2.7	2017-2019	85,451
			188,026			279,472

Analysed into:	**2016 HK$'000**	2015 HK$'000
Bank loans repayable:		
Within one year or on demand (note(i))	**179,429**	194,021
In the second year	**8,597**	36,865
In the third to fifth years, inclusive	**–**	48,586
	188,026	279,472

Notes:

(i) Certain term loans of the Group with a carrying amount of HK$73,565,000 (2015: HK$605,000) containing repayment on demand clauses. Accordingly, a portion of those loans due for repayment after one year with a carrying amount of HK$46,831,000 (2015: HK$232,000) 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:

	2016 HK$'000	2015 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**132,598**	193,789
In the second year	**35,333**	36,933
In the third to fifth years, inclusive	**20,095**	48,750
	188,026	279,472

(ii) As at 31 December 2016, all bank loans were denominated in Hong Kong dollars. As at 31 December 2015, except for bank loans of HK$1,653,000 which were denominated in RMB, all other 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$87,403,000 (2015: HK$87,691,000);

(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$20,300,000 (2015: HK$18,500,000); and

(c) the pledge of certain of the Group's time deposits amounting to HK$12,660,000 (2015: HK$13,083,000).

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29. 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 two years.

At 31 December 2016, 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	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**196**	216	**189**	202
In the second year	**160**	210	**157**	202
In the third to fifth years, inclusive	**–**	153	**–**	152
Total minimum finance lease payments	**356**	579	**346**	556
Future finance charges	**(10)**	(23)		
Total net finance lease payable	**346**	556		
Portion classified as current liabilities	**(189)**	(202)		
Non-current portion	**157**	354		

The above finance lease is denominated in Hong Kong dollars and bears interest at a rate of 3.0% (2015: 3.0%) per annum.

30. 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.

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31. Issued Capital

	Company	
	2016	2015
	HK$'000	HK$'000
Authorised:		
23,400,000,000 (2015: 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 (2015: 1,021,611,000) ordinary shares of HK$0.10 each	**101,661**	102,161

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
At 1 January 2015, 31 December 2015 and 1 January 2016	1,021,611,000	102,161	335,220	437,381
Shares repurchased	(5,000,000)	(500)	(8,596)	(9,096)
At 31 December 2016	**1,016,611,000**	**101,661**	**326,624**	**428,285**

During the year, the Company repurchased 5,000,000 of its ordinary shares on the Stock Exchange for a total consideration of HK$9,096,000. All ordinary shares repurchased during the 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.

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32. Share Option Schemes

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

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

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

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.

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32. 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

The exercise price of the share options under the Pre-IPO 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.

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

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

	2016		2015	
	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**	**3,520**	1.59	3,800
Forfeited during the year	**1.59**	**(300)**	1.59	(280)
At 31 December	**1.59**	**3,220**	1.59	3,520

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32. Share Option Schemes (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 period are as follows:

	Number of options '000	Exercise price HK$ per share	Exercise period
2016	3,220	1.59	29 June 2009 to 28 June 2017
2015	3,520	1.59	29 June 2009 to 28 June 2017

No share options were granted during the year (2015: Nil) and forfeited share options with an aggregate carrying amount of HK$577,000 (2015: HK$540,000) 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 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.

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

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

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

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32. 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 the reporting period are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
10,025	2.08	2 December 2017 to 1 December 2026
10,025	2.08	2 December 2018 to 1 December 2026

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

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016
Dividend yield (%)	**5.60**
Historical volatility (%)	**34**
Risk-free interest rate (%)	**2.24**
Suboptimal exercise factor (times)	**2.8**
Weighted average share price (HK$ per share)	**2.08**

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

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

	Number of outstanding share options	
	2016 '000	2015 '000
Pre-IPO Share Option Scheme	**3,220**	3,520
Share Option Scheme	**20,050**	–
	23,270	3,520

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 23,270,000 (2015: 3,520,000) additional ordinary shares of the Company and additional share capital of HK$2,327,000 (2015: HK$352,000) and share premium of HK$44,497,000 (2015: HK$5,245,000) (before share issue expenses).

At the date of approval of these financial statements, the Company had 3,220,000 share options outstanding under the Pre-IPO Share Option Scheme and 20,030,000 share options outstanding under the Share Option Scheme, which represented approximately 2.29%, of the Company's shares in issue as at that date.

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33. 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 amounting to approximately HK$110,748,000 pursuant to a declaration dated 31 December 2006 and a deed of release dated 12 March 2007.

OTHER RESERVE

The other reserve of the Group represents (i) the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired; and (ii) the difference between the acquisition of equity interests attributable to these then 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.

34. Note to the Consolidated Statement of Cash Flows

MAJOR NON-CASH TRANSACTION

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$12,000 (2015: HK$1,097,000) for such obligations during the year.

35. Contingent Liabilities

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

	2016 **HK$'000**	2015 HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**23,005**	23,809

NOTES TO FINANCIAL STATEMENTS

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36. Operating Lease Arrangements

(A) AS LESSOR

The Group leases its investment properties (note 15) 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**32**	34

(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 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**325,370**	348,071
In the second to fifth years, inclusive	**625,659**	729,721
Beyond five years	**327,092**	430,179
	1,278,121	1,507,971

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

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37. Commitments

In addition to the operating lease commitments detailed in note 36(B) above, the Group had the following capital commitments at the end of the reporting period:

	2016 **HK$'000**	2015 HK$'000
Contracted, but not provided for:		
Leasehold improvements, furniture, fixtures and equipment	**14,197**	28,250
Buildings	**21,478**	28,005
	35,675	56,255

38. Related Party Transaction

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transaction with a related party during the year:

	2016 **HK$'000**	2015 HK$'000
Rental expense to a related party	**48**	48

Note:

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 (2015: HK$4,000).

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

39. 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

	2016 **HK$'000**	2015 HK$'000
Loans and receivables:		
Rental deposits	**99,889**	112,102
Trade receivables	**31,003**	25,735
Financial assets included in prepayments, deposits and other receivables	**95,321**	62,855
Pledged deposits	**12,660**	13,083
Cash and cash equivalents	**492,449**	397,453
	731,322	611,228

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39. Financial Instruments by Category (continued)

FINANCIAL LIABILITIES

	2016 HK$'000	2015 HK$'000
Financial liabilities at fair value through profit or loss – held for trading:		
Derivative financial instrument	–	1,241
Financial liabilities at amortised cost:		
Trade payables	215,391	159,831
Financial liabilities included in other payables and accruals	260,205	282,062
Interest-bearing bank borrowings	188,026	279,472
Finance lease payable	346	556
Due to non-controlling shareholders of subsidiaries	22,474	22,747
	686,442	744,668
	686,442	745,909

40. 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, the 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. The valuation process and results are discussed with the audit committee once a year for annual financial reporting.

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 finance lease payable and interest-bearing bank borrowings as at 31 December 2016 was assessed to be insignificant. In the opinion of the directors, their carrying amounts are not significantly different from their respective fair values.

NOTES TO FINANCIAL STATEMENTS

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40. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

The Group entered into a derivative financial instrument with a creditworthy bank with no recent history of default. Derivative financial instrument, which represented a forward currency contract, was measured using valuation techniques similar to forward pricing models, using present value calculation. The models incorporated various market observable inputs including the credit quality of counterparty, foreign exchange spot and forward rates curves. The carrying amount of forward currency contract was the same as its fair value.

FAIR VALUE HIERARCHY

The following table illustrates the fair value measurement hierarchy of the Group's financial instrument:

Liabilities measured at fair value:

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instrument	–	1,241	–	1,241

During the year ended 31 December 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities.

NOTES TO FINANCIAL STATEMENTS

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41. 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 2016 and 2015 would have decreased/increased the Group's profit before tax by HK$940,000 and HK$1,397,000, 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 concentrations of credit risk with respect to its restaurant and bakery operations as it has a large number of diversified customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

FOREIGN CURRENCY RISK

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising mainly from transactions in RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in Mainland China. The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by 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.

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41. Financial Risk Management Objectives and Policies (continued)

LIQUIDITY RISK

The Group's objective is to ensure that there are adequate funds to meet commitments associated with its financial liabilities and to maintain a balance between continuity of funding and flexibility through the use of bank loans and 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:

	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**

	2015			
	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	–	159,831	–	159,831
Other payables and accruals	–	201,556	80,506	282,062
Interest-bearing bank borrowings (note)	155,989	40,599	88,033	284,621
Finance lease payable	–	216	363	579
Derivative financial instrument	–	1,241	–	1,241
Due to non-controlling shareholders of subsidiaries	–	–	22,747	22,747
	155,989	403,443	191,649	751,081

NOTES TO FINANCIAL STATEMENTS

31 December 2016

41. Financial Risk Management Objectives and Policies (continued)

LIQUIDITY RISK (CONTINUED)

Note:

Included in the above interest-bearing bank borrowings are term loans with a carrying amount of HK$73,565,000 (2015: HK$605,000), 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	**1 to 5 years**	**Over 5 years**	**Total**
	HK$000	HK$000	HK$000	HK$000
As at 31 December 2016	**134,380**	**56,434**	**–**	**190,814**
As at 31 December 2015	196,371	88,275	–	284,646

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 not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

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:

	2016	2015
	HK$'000	HK$'000
Total borrowings	**188,372**	280,028
Total equity attributable to owners of the parent	**1,751,890**	1,781,846
Gearing ratio	**10.8%**	15.7%

NOTES TO FINANCIAL STATEMENTS

31 December 2016

42. 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:

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**446,036**	446,058
CURRENT ASSETS		
Prepayments	**249**	250
Due from a subsidiary	**522,580**	491,040
Cash and cash equivalents	**2,432**	1,995
Total current assets	**525,261**	493,285
CURRENT LIABILITIES		
Other payables and accruals	**1,124**	1,063
NET CURRENT ASSETS	**524,137**	492,222
Net assets	**970,173**	938,280
EQUITY		
Issued capital	**101,661**	102,161
Reserves (note)	**868,512**	836,119
Total equity	**970,173**	938,280

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 2015	335,220	7,322	9	427,527	65,762	835,840
Final 2014 dividend declared	–	–	–	–	(61,297)	(61,297)
Profit and total comprehensive income for the year	–	–	–	–	123,413	123,413
Transfer of share option reserve upon the forfeiture of share options	–	(540)	–	–	–	(540)
Interim 2015 dividend	–	–	–	–	(61,297)	(61,297)
At 31 December 2015 and 1 January 2016	335,220	6,782	9	427,527	66,581	836,119
Final 2015 dividend declared	–	–	–	–	(60,997)	(60,997)
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 the forfeiture of share options	–	(579)	–	–	–	(579)
Repurchase of shares	(8,596)	–	500	–	(500)	(8,596)
Interim 2016 dividend	–	–	–	–	(60,997)	(60,997)
At 31 December 2016	**326,624**	**6,789**	**509**	**427,527**	**107,063**	**868,512**

* 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.

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.

PRINCIPAL PROPERTIES HELD FOR INVESTMENT PURPOSES

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				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,287,166**	4,546,478	4,489,244	4,320,453	4,055,809
Cost of sales	**(3,766,225)**	(4,049,234)	(3,953,628)	(3,704,465)	(3,424,213)
Gross profit	**520,941**	497,244	535,616	615,988	631,596
Other income and gains, net	**19,502**	26,462	22,786	26,599	26,949
Selling and distribution expenses	**(114,605)**	(105,497)	(98,652)	(98,185)	(85,174)
Administrative expenses	**(191,966)**	(195,100)	(194,116)	(186,967)	(190,850)
Other expenses	**(12,743)**	(19,682)	(10,817)	(15,745)	(708)
Finance costs	**(5,185)**	(4,618)	(3,340)	(3,717)	(604)
Share of profits/(losses) of associates, net	**512**	(2)	(1)	(2)	(1)
PROFIT BEFORE TAX	**216,456**	198,807	251,476	337,971	381,208
Income tax expense	**(44,530)**	(37,445)	(50,818)	(64,640)	(77,220)
PROFIT FOR THE YEAR	**171,926**	161,362	200,658	273,331	303,988
Attributable to:					
Owners of the parent	**177,845**	171,323	207,368	274,204	299,199
Non-controlling interests	**(5,919)**	(9,961)	(6,710)	(873)	4,789
	171,926	161,362	200,658	273,331	303,988

Assets, Liabilities and Non-controlling Interests

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**2,559,213**	2,671,712	2,617,071	2,610,267	2,319,447
TOTAL LIABILITIES	**(807,725)**	(883,703)	(812,899)	(868,481)	(742,332)
NON-CONTROLLING INTERESTS	**402**	(6,163)	(16,756)	(23,700)	(19,031)
	1,751,890	1,781,846	1,787,416	1,718,086	1,558,084

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