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TAO HEUNG HOLDINGS LIMITED

稻香控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 573)

RENEWAL OF CONTINUING CONNECTED TRANSACTION IN RELATION TO SUPPLY OF PRODUCTS FROM AND TO NON-WHOLLY OWNED SUBSIDIARY

Reference is made to the announcement dated 20 November 2015 and 21 April 2017 of the Company in relation to the Previous Master Supply Agreement entered into between the Company and Baker which will expire on 31 December 2017.

The Directors would like to announce that the Previous Master Supply Agreement has been renewed under and by virtue of the Master Supply Agreement whereby the Parties have agreed, subject to the terms and conditions therein contained, to supply or procure to supply the Products with each other at such prices based on the actual costs plus a mark-up of no more than 30%. The Master Supply Agreement will commence from 1 January 2018 to 31 December 2020.

Baker is a non-wholly owned subsidiary of the Company and is a connected person of the Company as the associate of a director of the Company would hold more than 30% of the issued share capital of Baker as at the commencement date of the Master Supply Agreement. The transactions contemplated under the Master Supply Agreement therefore constitute continuing connected transactions (as such term is defined under the Listing Rules) for the Company.

LISTING RULE IMPLICATIONS

As at the commencement date of the Master Supply Agreement, the associate of a director of the Company would own more than 30% of the equity interest in Baker Limited and thus Baker Limited and its wholly owned subsidiary are connected persons of the Company. Pursuant to the Listing Rules, the entering into of the Master Supply Agreement constitutes continuing connected transaction of the Company.

Based on the Annual Cap, the applicable percentage ratios will be on an annual basis more than 0.1% but less than 5% and the Annual Cap is expected to be more than HK\$10 million for each of the three years ending 31 December 2018, 31 December 2019 and 31 December 2020. Accordingly, the transactions contemplated under the Master Supply Agreement will be subject to the reporting and announcement but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

The Directors would like to announce that Previous Master Supply Agreement has been renewed whereby the Company has agreed, subject to the terms and conditions therein contained, to supply or procure to supply the Products to and from Baker and its wholly owned subsidiary at such prices based on the actual costs plus a mark-up of no more than 30%. The Master Supply Agreement will be effective from 1 January 2018 to 31 December 2020. Particulars of the Master Supply Agreement are set forth below:

Date:	29 December 2017
Parties:	The Company or its designated subsidiaries Baker and its wholly-owned subsidiary, ACT Foods
Subject:	Sales and purchases of the Products between the Group and Baker Group
Purchase price:	Cost plus a markup of no more than 30% as determined after arm's length negotiation between the parties.
Term:	From 1 January 2018 to 31 December 2020.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

With the Group's food processing and logistics centre in Dongguan, the PRC and in Tai Po, Hong Kong, the Group is able to streamline and centralize various procurement and production functions for the Group's restaurants and bakery shops which resulted in improving the cost effectiveness of the Group. In addition, such arrangement would be beneficial to implement quality control on the food and services provided by the restaurants and the bakery shops of the Group. Hence, the Directors consider that the transactions contemplated under the Master Supply Agreement are beneficial to the business development of the Group as a whole.

The food processing and logistics centres are supplying the relevant Products to the Parties. However, because Baker and ACT Foods are connected persons of the Company, the transactions contemplated under the Master Supply Agreement will constitute continuing connected transactions for the Company.

The terms of the Master Supply Agreement and in particular, the pricing basis of the Products, are no less favourable to the supply of the same (i) to other restaurants and bakery shops operated by the Group; and (ii) by other independent suppliers. On this basis, the Directors (including the independent non-executive Directors) consider that the terms of the Master Supply Agreement and the Annual Cap are fair and reasonable and in the interests of the shareholders as a whole.

HISTORICAL TRANSACTION AMOUNTS

The following is a summary of the approximate amounts of transactions in respect of the sale and purchases of Products between the Group and the Baker Group for the financial years ended 31 December 2015, 31 December 2016 and the period from 1 January 2017 to 30 November 2017:

	For the financial year ended 31 December 2015 HK\$'000	For the financial year ended 31 December 2016 HK\$'000	From 1 January 2017 to 30 November 2017 HK\$'000 (unaudited)
Purchases from Baker Group	11,808	5,081	NIL
Sale to Baker Group	1,073	4,275	11,798

ANNUAL CAPS OF THE SALE AND PURCHASES OF THE PRODUCTS

The proposed purchase caps and the sale caps of the continuing connected transactions for each of the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 of the Group are set out below:

	For the financial year ended 31 December 2018 HK\$'000	For the financial year ended 31 December 2019 HK\$'000	For the financial year ended 31 December 2020 HK\$'000
Purchases from Baker Group	NIL	NIL	NIL
Sale to Baker Group	15,000	16,500	18,150

The Annual Cap is based on various considerations, including but not limited to (i) the historical purchases of the Products by the Parties from other suppliers; (ii) the anticipated increase in the purchases by the Parties; and (iii) the purchase amount of similar products by other entities of the Group with similar scale of operation.

If the transactions contemplated under the Master Supply Agreement for any of the above years exceed the relevant Annual Cap, the Parties will comply with the relevant requirements stipulated under Chapter 14A of the Listing Rules.

LISTING RULES IMPLICATIONS

Baker and ACT Foods are non-wholly owned subsidiaries of the Company and are connected persons of the Company as the associate of a director of the Company holds 40% of the issued share capital of Baker at the commencement date of the Master Supply Agreement. The transactions contemplated under the Master Supply Agreement therefore constitute continuing connected transactions (as such term is defined under the Listing Rules) for the Company.

Based on the Annual Cap, the applicable percentage ratios will be on an annual basis more than 0.1% but less than 5% and the Annual Cap is expected to be more than HK\$10 million for each of the three years ending 31 December 2018, 31 December 2019 and 31 December 2020. Accordingly, the transactions contemplated under the Master Supply Agreement will be subject to the reporting and announcement but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL INFORMATION RELATING TO THE COMPANY AND BAKER

The Group is principally involved in the restaurant and bakery operations, provision of food catering services, production, sale and distribution of food products related to restaurant operations and poultry farm operations.

Baker is indirectly owned as to 60% by the Company and 40% by the associate of a director of the Company at the commencement date of the Master Supply Agreement. Baker is an investment holding company with its wholly-owned subsidiary operating bakery shops in Mainland China.

DEFINITIONS USED IN THIS ANNOUNCEMENT

Unless the context requires otherwise, the capitalised terms used in this announcement shall have the following meanings:

“ACT Foods”	means ACT Foods (Shenzhen) Company Limited, a wholly owned subsidiary of Baker whose 60% shareholdings held by the Company indirectly and the remaining 40% held by the associate of a director of the Company. Hence, ACT Foods is a connected person of the Company;
“Annual Cap”	means the anticipated aggregate annual value of the proposed transactions contemplated under the Master Supply Agreement for each of the three years ending 31 December 2018, 31 December 2019 and 31 December 2020;
“associates”	has the meaning ascribed to it by the Listing Rules;
“Baker”	means Baker Limited, a company incorporated in Hong Kong with limited liability;

“Baker Group”	means Baker and its subsidiary;
“Board”	means the board of Directors of the Company;
“China or PRC”	means the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan;
“Company”	means Tao Heung Holdings Limited 稻香控股有限公司*, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Directors”	means the directors of the Company;
“Group”	means the Company and its subsidiaries;
“Hong Kong”	means The Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	means The Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	means the main board of the Stock Exchange;
“Master Supply Agreement”	means the master supply agreement dated 29 December 2017 entered into between the Company and Baker for the supply of the Products;
“percentage ratios”	refers to the percentage ratios under rule 14.07 of the Listing Rules;
“Previous Master Supply Agreement”	means the master supply agreement dated 20 November 2015 as supplemented by the supplemental agreement dated 21 April 2017 entered into between the Company and Baker for the supply of the Products;
“Products”	mean the products supplied or procured to be supplied by and from the Company and Baker Group for their daily consumption in the course of their respective businesses. The Products shall include, but without limitation to, fresh food, semi-processed food, food ingredients, utensils, packaging materials, printing materials, uniform and such other materials as agreed between the parties to the Master Supply Agreement from time to time;

“Stock Exchange”

means The Stock Exchange of Hong Kong Limited;

“HK\$”

means Hong Kong dollars, the lawful currency of Hong Kong.

By order of the Board
Tao Heung Holdings Limited
CHUNG Wai Ping
Chairman

Hong Kong, 29 December 2017

As at the date of this announcement, the board of the Directors comprised nine Directors, of which four are executive Directors, namely Mr. CHUNG Wai Ping, Mr. WONG Ka Wing, Mr. LEUNG Yiu Chun and Mr. HO Yuen Wah; two are non-executive Directors, namely Mr. FONG Siu Kwong and Mr. CHAN Yue Kwong, Michael and three are independent non-executive Directors namely Professor CHAN Chi Fai, Andrew, Mr. MAK Hing Keung, Thomas and Mr. NG Yat Cheung.

* *For identification purposes only*