# TAO HEUNG HOLDINGS LIMITED
# 稻香控股有限公司*

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 573)**

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

**HIGHLIGHTS**

| | For the year ended 31 December | | Increase/ (Decrease) in |
|---|---|---|---|
| | **2017** | 2016 | **%** |
| | ***(HK$'000)*** | *(HK$'000)* | |
| **Revenue** | **4,025,280** | 4,287,166 | (6.1%) |
| **Profit after tax** | **86,736** | 171,926 | (49.6%) |
| **Profit attributable to owners of the parent** | **89,082** | 177,845 | (49.9%) |
| | ***HK cents*** | *HK cents* | |
| **Basic earnings per share** | **8.76** | 17.47 | (49.9%) |
| **Proposed final dividend per share** | **6.0** | 6.0 | – |
| **Proposed special dividend per share** | **–** | 4.0 | (100%) |
| **No. of restaurants and bakery outlets including associates** | | | |
| **at 31 December** | **152** | 161 | |
| **at announcement date** | **152** | 160 | |

* *For identification purposes only*

## CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

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

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

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

**Appreciation**

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

**Chung Wai Ping**
*Chairman*

Hong Kong
22 March 2018

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review

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

### Financial Results

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

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

### Hong Kong Operations

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

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

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

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

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

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

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

**Mainland China Operations**

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

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

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

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

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

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

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

**Peripheral Business**

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

**Financial Resources and Liquidity**

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

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

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

**Capital Expenditure**

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

**Contingent Liabilities**

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

**Foreign Exchange Risk Management**

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

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

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

**Human Resources**

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

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

**Pledge of Assets**

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

**Prospects**

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

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

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

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

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

## RESULTS

The board of directors (the "**Board**") of Tao Heung Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively "**Tao Heung**" or the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2017*

| | *Notes* | **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|---|
| REVENUE | *4* | **4,025,280** | 4,287,166 |
| Cost of sales | | **(3,635,384)** | (3,766,225) |
| Gross profit | | **389,896** | 520,941 |
| Other income and gains, net | *4* | **31,361** | 19,502 |
| Selling and distribution expenses | | **(116,186)** | (114,605) |
| Administrative expenses | | **(184,525)** | (191,966) |
| Other expenses | | **(12,064)** | (12,743) |
| Finance costs | *5* | **(3,902)** | (5,185) |
| Share of profits of associates, net | | **3,054** | 512 |
| PROFIT BEFORE TAX | *6* | **107,634** | 216,456 |
| Income tax expense | *7* | **(20,898)** | (44,530) |
| PROFIT FOR THE YEAR | | **86,736** | 171,926 |
| Attributable to: | | | |
| Owners of the parent | | **89,082** | 177,845 |
| Non-controlling interests | | **(2,346)** | (5,919) |
| | | **86,736** | 171,926 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| – Basic (HK cents) | *9* | **8.76** | 17.47 |
| – Diluted (HK cents) | *9* | **8.76** | 17.46 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2017*

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2017*

| | *Notes* | **2017** **HK$'000** | 2016 *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **1,215,235** | 1,323,107 |
| Prepaid land lease payments | | **92,742** | 90,483 |
| Investment properties | | **26,800** | 24,100 |
| Goodwill | | **39,556** | 38,803 |
| Other intangible asset | | **1,008** | 1,039 |
| Investments in associates | | **9,768** | 4,014 |
| Biological assets | | **4,077** | 2,989 |
| Deferred tax assets | | **102,850** | 87,589 |
| Rental deposits | | **109,606** | 99,889 |
| Deposits for purchases of items of property, plant and equipment | | **68,702** | 52,628 |
| Total non-current assets | | **1,670,344** | 1,724,641 |
| CURRENT ASSETS | | | |
| Inventories | | **145,207** | 143,607 |
| Biological assets | | **9,450** | 6,189 |
| Trade receivables | *10* | **46,347** | 31,003 |
| Prepayments, deposits and other receivables | | **144,418** | 141,859 |
| Tax recoverable | | **9,394** | 6,805 |
| Pledged deposits | | **13,781** | 12,660 |
| Cash and cash equivalents | | **530,471** | 492,449 |
| Total current assets | | **899,068** | 834,572 |
| CURRENT LIABILITIES | | | |
| Trade payables | *11* | **216,708** | 215,391 |
| Other payables and accruals | | **268,898** | 261,187 |
| Interest-bearing bank borrowings | | **198,584** | 179,429 |
| Finance lease payable | | **186** | 189 |
| Tax payable | | **16,260** | 19,113 |
| Total current liabilities | | **700,636** | 675,309 |
| NET CURRENT ASSETS | | **198,432** | 159,263 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,868,776** | 1,883,904 |

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

*Notes:*

## 1. BASIS OF PREPARATION

The 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**") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and biological assets which have been measured at fair value. The financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as explained below regarding the impact of HKAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

## 3. OPERATING SEGMENT INFORMATION

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

### Geographical information

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

*(a) Revenue from external customers*

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

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

(b) *Non-current assets*

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

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

## 4. 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:

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

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

## 5. FINANCE COSTS

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

## 6. PROFIT BEFORE TAX

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

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

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

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

## 7. INCOME TAX

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

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

## 8. DIVIDENDS

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

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

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

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

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

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

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

## 10. 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:

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

## 11. 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:

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

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

## OTHER INFORMATION

### Dividend

In acknowledging continuous support from the Company's shareholders, the Directors have declared the payment of a final dividend of HK6.00 cents per ordinary share in respect of the year ended 31 December 2017, payable on 12 June 2018 to shareholders whose names appear on the register of member of the Company on 30 May 2018.

### Closure of Register of Members

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

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

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

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

### Corporate Governance

During the year ended 31 December 2017, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

### Model Code of Securities Transactions by Directors

The Company has adopted the Model Code 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 ended 31 December 2017.

**Purchase, Sale or Redemption of Listed Securities**

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

**Audit Committee**

The Company established the Audit Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes, the internal control systems and licensing 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.

The Company's annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee, which opines that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made. The Audit Committee of the Company has met the external auditors of the Company, Ernst & Young, and reviewed the consolidated financial statements of the Group for the year ended 31 December 2017.

**Annual General Meeting**

The 2017 Annual General Meeting of the Company will be held on Thursday, 24 May 2018. Notice of the 2017 Annual General Meeting will be published and issued to shareholders in due course.

**Disclosure of information on the Stock Exchange's website**

The electronic version of this announcement will be published on the website of the Stock Exchange (*www.hkexnews.hk*) and the website of the Company (*www.taoheung.com.hk*).

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

Hong Kong, 22 March 2018

*As at the date of this announcement, the board of directors of the Company comprised 9 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.*