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 2018

* For identification purposes only

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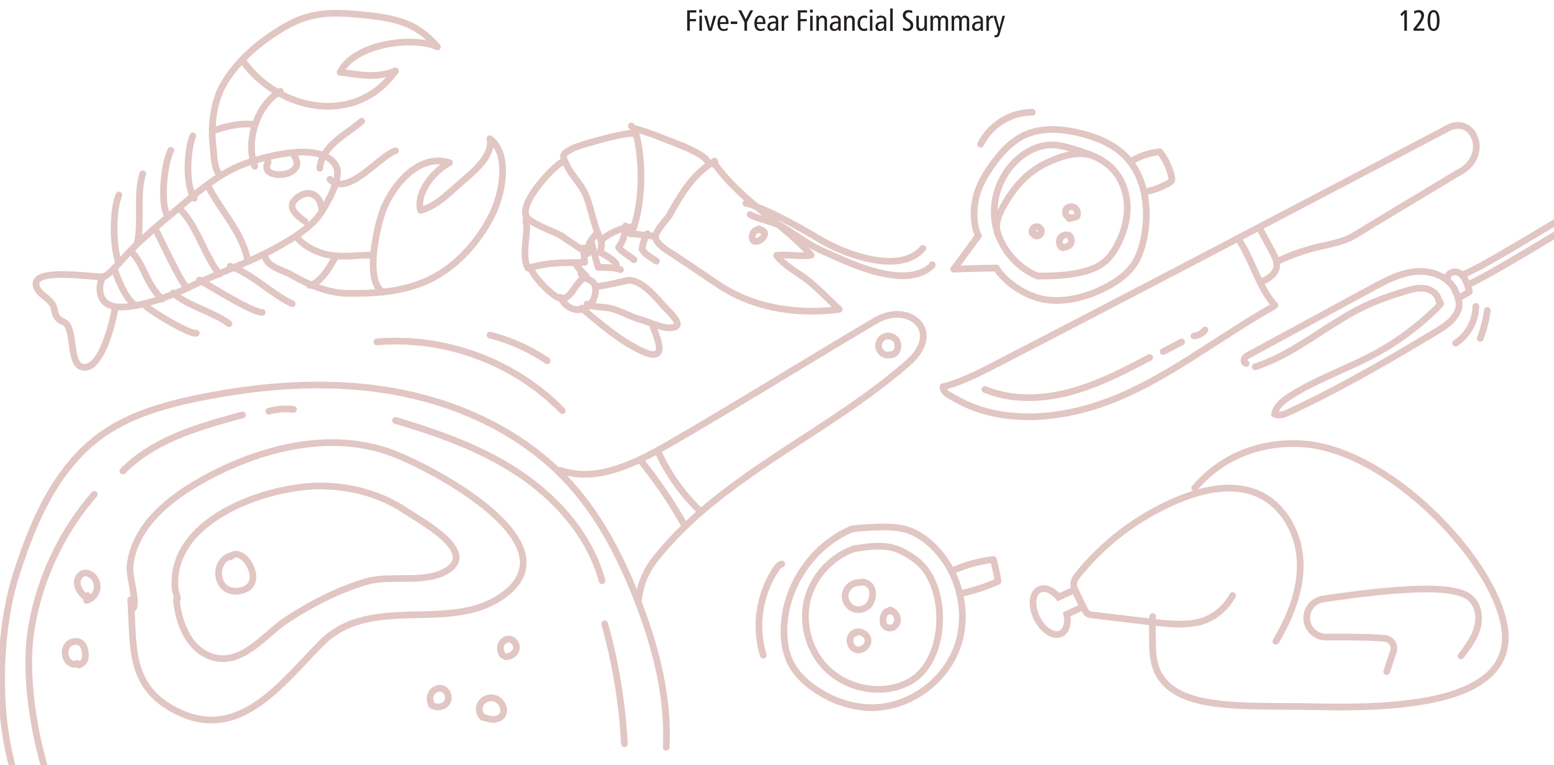


Corporate Information

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

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

Principal Auditor

Ernst & Young

Stock Code

573

Website

www.taoheung.com.hk

Financial Highlights And Calendar

Key Financial Ratios	Notes	2018 HK$'000	2017 HK$'000	Increase/ (Decrease) in %
Performance				
Revenue		**4,138,788**	4,025,280	2.8%
Profit attributable to owners of the parent		**116,390**	89,082	30.7%
Gross profit margin		**11.2%**	9.7%	15.5%
Net profit margin	1	**2.8%**	2.2%	27.3%
Per Share Data		**HK cents**	HK cents	
Earnings per share				
– Basic		**11.45**	8.76	30.7%
– Dilutive		**11.45**	8.76	30.7%
Interim dividend per share		**5.50**	5.50	–
Proposed final dividend per share		**6.00**	6.00	–

		2018 HK$'000	2017 HK$'000	Increase/ (Decrease) in %
Total assets		**2,391,292**	2,569,412	(6.9%)
Net assets		**1,686,040**	1,741,237	(3.2%)
Cash and cash equivalents		**531,416**	530,471	0.2%
Net cash	2	**381,749**	331,887	15.0%
Liquidity and Gearing				
Current ratio	3	**1.5**	1.3	15.4%
Quick ratio	4	**1.3**	1.1	18.2%
Gearing ratio	5	**9.0%**	11.4%	(21.1%)
Per Share Data		**HK cents**	HK cents	
Net assets per share	6	**165.85**	171.28	(3.2%)
Net cash per share	7	**37.55**	32.65	15.0%

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 as 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 (2017: 1,016,611,000 shares).
7. Net cash per share is calculated based on the number of 1,016,611,000 shares (2017: 1,016,611,000 shares).

Financial Highlights and Calendar

CALENDAR

23 August 2018	Announcement of interim results
21 March 2019	Announcement of annual results
18 April 2019	Despatch of annual report to shareholders
	Closure of register of members
20 May 2019 to 23 May 2019	for attending the annual general meeting
30 May 2019	for proposed final dividend
23 May 2019	Annual general meeting
Dividends	
10 October 2018	Interim: HK5.50 cents per share paid
12 June 2019	Final: HK6.00 cents per share proposed

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 2018.

During the past financial year, growing macroeconomic concerns have led to greater headwinds for the restaurant sector. Nonetheless, Tao Heung, with its proven strategies, have been able to achieve progress in both Hong Kong and Mainland China despite the slowing economies. Such headway is attributable to our ability to deliver "value for money" cuisine, which has always been one of Tao Heung's greatest strengths. Also representing part of our founding principles, good value will continue to underpin the Group's business plans and serve as catalyst for continuing growth.

Planning for the Long Term

Since 2016, our long-term plan, encapsulated in the acronym "**MISS**" (Marketing, Innovation, Service and Succession), has provided us with the direction and impetus to grow, as well as the drive to become one of the most esteemed and premier Chinese restaurant groups in Hong Kong and Mainland China.

Towards achieving MISS as it relates to **Marketing**, we have been employing several campaigns aimed at appealing to the young in particular, a highly important demographic for sustaining long-term growth. This has included the popular "All you can eat hotpot" ("火鍋放題") and seafood-related promotions. We have also made efforts at rebranding and spanning the design of packaging to the wholesale business, and we will continue to look at new ways to manage or expand brands under the Group's portfolio. Yet another avenue for further exploration involves collaborating with popular brands to strengthen our customer base and diversify our revenue streams. To reach out to our customers in Mainland China specifically, we have better leveraged our e-commerce and distributor channels, as well as worked closely with supermarkets, all of which have helped to drive sales of our business.

Chairman's Statement

On the **Innovation** front, it is worth noting that we were among the first to adopt several mobile integrated platforms, such as WeChat ("微信支付") and Alipay ("支付寶"), which are available at all of our restaurants in Hong Kong and Mainland China for customer convenience. In addition, we are the partner of Tmall.com and JD.com, which, through these two well-known and popular online distributors, our packaged products have become accessible to customers from key regions of Mainland China, leading to improved retail performance. Yet another example of our use of e-commerce involves takeaway service, and which involves leveraging the Dianping.com ("大眾點評"), Meituan ("美團") and ele.me ("餓了麼") platforms.

With regard to **Service**, the third important element of our four-pronged plan, we have sought to elevate dining experiences for our customers by directing greater resources to staff incentives that promote work efficiency and proper decorum. We have also employed "mystery customers" to visit our restaurants and "focus group" to assess and provide feedback on service quality from a customer's perspective. Overall, these measures have been effective, as our services have been well received by patrons. Going forward, Tao Heung will continue to employ such measures to raise service quality even higher.

Lastly, with reference to **Succession**, we have engaged an international consulting company – Renoir to perform a review of our organisation structure and the operation flows in restaurants, factories and procurement cycle, followed by launching a comprehensive program to effect changes in the Company with the aim to achieve higher operational efficiency. We have also been employing decentralisation and incentive programmes as part of efforts at strengthening business management. In respect of the former, greater decision-making power has been entrusted with managers to encourage prompt and pragmatic management. While encouraging them to take on greater responsibility for their respective operation, they are rewarded through incentives, thus promoting a strong work ethic and loyalty, hence also leading to higher staff retention.

Recognising that for the Group to achieve long-term development, it must also ensure that the industry is able to develop well into the future. Consequently, our Chairman established Tao Miao Institute ("稻苗學院") jointly with VTC in Hong Kong and Tao Heung sponsoring its operation, and we are also studying the opportunities to establish with a PRC counterpart in extending our belief in the industry towards Mainland China. We trust that the Group will be able to preserve and pass on Chinese culinary traditions through the operation of these training institutions.

Aside from doing our part for the catering industry, we also seek to contribute to society, and this includes by protecting the environment. Towards this end, we have started introducing the "Electric Kitchen" to our operations for many years, as electric kitchen equipment are more energy efficient and environmentally friendly than their gas-powered counterparts. In recognition of our efforts, the Group received a Joint Energy Saving Award at the inaugural CLP Smart Energy Award 2018. The Group will continue to shoulder its corporate social responsibility, whether independently or by co-operating with government agencies, to contribute to both the industry and society.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the management and staff for contributing to the progress of Tao Heung during the past year. In addition, I wish to thank all of our business associates, customers and shareholders for their unwavering support.

Chung Wai Ping
Chairman

Hong Kong
21 March 2019

Management Discussion and Analysis

Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2018. Over the past year, uncertainty about the Mainland China and Hong Kong economies has increased. Nonetheless, the Group has been able to achieve stable growth in both markets by placing its focus on "value for money". This is consistent with the Group's belief that to draw and retain customers ultimately comes down to delivering good cuisine and services that they deem to be fair.

Financial Results

During the year, the Group reported total revenue of HK$4,138.8 million, compared with HK$4,025.3 million last year. The increase was mainly attributable to the employment of effective strategies that led to better same-store sales. Profit attributable to owners of the parent increased by 30.7% year-on-year to HK$116.4 million (2017: HK$89.1 million). Hong Kong has remained the Group's largest revenue contributor, accounting for 62.5% (2017: 63.9%) of total revenue, with Mainland China accounting for 37.5% (2017: 36.1%). Excluding the one-time loss incurred from the compulsory closure of the Group's pig farm by the Mainland China Government during the first half year, profit attributable to owners of the company would have amounted to HK$127.0 million, representing a growth of 42.5%.

The Board has proposed a final dividend of HK6.0 cents (2017: HK6.0 cents) per share. Together with an interim dividend of HK5.5 cents per share already paid (2017: HK5.5 cents), the total dividend will be HK11.5 cents (2017: HK11.5 cents), which represents a dividend payout ratio of 100.4% (2017: 131.2%).

Hong Kong Operations

The Hong Kong operations generated revenue totalling HK$2,587.8 million (2017: HK$2,571.1 million) during the review year. Profit attributable to owners of the parent at HK$92.2 million (2017: HK$74.9 million).

In its effort to attract more target customers, the Group has employed several marketing strategies, including the "All-you-can-eat hotpot" and "Half-priced dim-sum", which were able to improve the performance of the Hong Kong operations. This was reflected by the rise in same-store sales, which rose by 1.4% in 2018. As for appealing to the younger generation – a major force in the restaurant industry, the Group has sought to enhance the appearance of certain restaurants given that a pleasant environment is one of the salient features which appeal to this demographic. Correspondingly, six restaurants were refurbished during the review year, thus continuing a practice adopted by the Group since 2017.

Management Discussion and Analysis

Indicative of the Group's efforts to rightsize its restaurant network to strengthen operations and increase efficiency, the Group has a total of 64 restaurants in operation as at 31 December 2018 (2017: 62 restaurants).

The Group has, over the years, invested considerable effort into diversifying its restaurant portfolio through collaboration with different brands, including RingerHut, Du Hsiao Yueh and Flamingo Bloom, all of which have continued to attract customers from different age groups and have performed stably. During the review year, this practice has continued with the introduction of Han Lin Tea Room (翰林茶館), which specialises in Taiwanese beverages and snacks. Following the first Hong Kong branch opening in Harbour City, Tsim Sha Tsui, in October 2018, a second kiosk located in Mong Kok commenced operation in the following month. As at end of the year, the Group has two Du Hsiao Yueh, two Han Lin Tea Room and one Flamingo Bloom in operation.

In regards to Tai Cheong Bakery, the operation has enjoyed significant growth during the year. The recent rebranding and renovation of certain shops were well-received by the market. As at 31 December 2018, the Group had 16 (2017: 17) Tai Cheong Bakery outlets in operation across Hong Kong. Outside of the city, the Group has extended its reach to Taiwan after its success in the Singapore market. Two franchise outlets have been opened in a railway station and airport in Taiwan through the co-operation with members of SSP Group plc ("SSP"). The management trusts that the collaboration with SSP will enable the Group to extend its reach on the island, and it will continue to explore the possible opportunities for future openings in worldwide airport and transportation hubs.

Given the current environment of the Hong Kong F&B sector, the Group will continue to direct its energies on refurbishing its restaurant network while at the same time place efforts on rebranding, both of which will be conducive to attracting young customers. At the same time, the Group will explore various marketing strategies as well as possible collaboration with other retail brands to diversify its product offerings. Moreover, the Group will continue to consolidate and revitalise its core operations with a view to provide still higher quality food and services.

Mainland China Operations

As at the review year, the Mainland China operations contributed revenue totalling HK$1,551.0 million (2017: HK$1,454.2 million). Furthermore, profit attributable to owners of the parent of HK$24.2 million (2017: HK$14.2 million) was recorded.

Over the years, the management has been carefully devising strategies to effectively tap the local market, culminating in satisfactory growth during the review year. In an effort to appeal to younger generations of customers, several restaurants have undergone refurbishment and rightsizing. Moreover, menus have been specially developed to suit local tastes. As for the Group's three integrated complexes in Dongguan, which consists of Chinese restaurant, self-owned supermarket, indoor children's playground, museum and shops, all have continued to achieve growth. The integrated complex business model has proved to be a success owing to its ability to attract a diverse range of customers, leading to increased profits.

In view of the popularity of e-commerce, including electronic payment and online food-ordering systems, the Group has made available several mobile payment platforms to its customers, including Alipay and WeChat Pay which can be accessed at all of its restaurants. Furthermore, packaged food products are offered via online distributors including Tmall.com and JD.com. Through these channels, the online purchase of packaged food products can be achieved nationwide, and has already led to significant growth in revenue contribution. Given the popularity of takeout and delivery service, here too the Group has employed e-commerce through such platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼).

Management Discussion and Analysis

As at 31 December 2018, the Group operated a total of 44 restaurants (2017: 44 restaurants) in Mainland China. It also operated 27 Bakers 180 outlets (2017: 27 outlets) during the review year, which contributed to combined revenue of HK$29.1 million (2017: HK$30.7 million).

To sustain growth momentum, the Group will be paying close attention to developments in the Bay Area, having already commenced construction of a business network in the region and will soon be able to reap the benefits of previous investment. Furthermore, based on the Group's successful track record in the Guangzhou, Shenzhen and Dongguan markets, it will continue to make investments in the Bay Area such as Jiangmen as it also possesses the potential to serve as springboard for the Group's development in Mainland China.

Peripheral Business

During the review year, the sale of packaged food and festive products performed satisfactorily, benefiting from an increasingly comprehensive domestic logistics network that has enabled the Group to reach more regions of Mainland China. The Group will continue to invest in network expansion, particularly around cities where the Group has restaurant operations, as well as in the vicinity of its distributors. As sales increase, a further improvement in margin can therefore be expected through better utilization of our production facilities. With regard to the corporate catering business, it has also performed encouragingly during the review period, owing to its strong ties with airlines and institutional caterers.

Financial Resources and Liquidity

As at 31 December 2018, the Group's total assets were approximately HK$2,391.3 million (2017: approximately HK$2,569.4 million) while the total equity was approximately HK$1,686.0 million (2017: approximately HK$1,741.2 million).

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$531.4 million. After deducting total interest-bearing bank borrowings of approximately HK$149.7 million, the Group had a net cash surplus position of approximately HK$381.7 million.

As at 31 December 2018, 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 9.0% (2017: 11.4%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2018 amounted to approximately HK$127.5 million and capital commitments as at 31 December 2018 amounted to approximately HK$17.8 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 2018, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$18.7 million (2017: approximately HK$19.0 million).

Management Discussion and Analysis

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2018 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 2018, the Group had 7,829 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 2018, there are 16,160,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Pledge of Assets

As at 31 December 2018, the Group pledged its bank deposits of approximately HK$13.7 million, leasehold land and buildings of approximately HK$50.3 million and investment properties of approximately HK$20.5 million to secure the banking facilities granted to the Group.

Management Discussion and Analysis

Prospects

Faced with increasingly challenging macroeconomic conditions, the Group will redouble efforts at strengthening its presence in Hong Kong and Mainland China. Marketing campaigns as well as consolidation efforts have proven to be effective and will continue to be conducted in line with the Group's "MISS" business plan. The management remains cautiously optimistic about the outlook of the Group, and will further invigorate its core businesses with the aim of providing even higher quality food and services going forward.

As for the Hong Kong market, the Group will seek to bolster the local brand portfolio by way of refurbishing existing restaurants while at the same time continuing with the rebranding of Tai Cheong Bakery. Furthermore, the Group will look for collaborative opportunities with renowned brands that can facilitate the diversification of revenue streams and expansion of its customer base. Two examples to support the success of this strategy can be evidenced by its ties with Du Hsiao Yueh and Flamingo Bloom, with the former set to open one restaurant while the latter will open one restaurant in the coming financial year.

In Mainland China, the packaged food operation has helped the Group to further penetrate into other cities across the country; expedited by online distribution platforms. Meanwhile, collaboration with supermarkets has provided the Group with an offline channel for increasing sales. To encourage growth, both online and offline, the Group will increase its e-commerce effort with the aim of raising brand awareness and building customer loyalty. Moreover, the Group will look to capitalise on the strength of its logistics centre in Dongguan to support its strategies, leading ultimately to greater revenue and profit.

Going forward, the Group will seek to drive growth by leveraging its renowned brands to extend geographical reach, as well as by introducing new brands into its existing markets. Internally, the management will continue with its ongoing strategies to consolidate operation and increase efficiency which have proven to work under different market situations. Whether expanding into new markets or consolidating its presence in existing ones, the management will shrewdly utilise the Group's various competitive edges to achieve sustainable growth and deliver stable returns to its shareholders.

Directors and Senior Management

Executive Directors

Mr. Chung Wai Ping, JP, aged 59, 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 was appointed as Justice of Peace as at 30 June 2017. Mr. Chung is a cousin of Mr. Chung Ming Fat, who is the director of logistic management for Hong Kong and Mainland China of the Group.

Mr. Wong Ka Wing, aged 61, 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 48, 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 57, is an Executive Director and was appointed on 1 March 2007. Mr. Ho is the Chief Operation Officer – China 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 61, 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 39 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 67, 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 and the Honorary Chairman of the Hong Kong Institute of Marketing.

Independent Non-Executive Directors

Professor Chan Chi Fai, Andrew, JP, aged 65, is an Independent Non-executive Director and was appointed on 9 March 2007. Besides, he was also appointed as a member of both Audit Committee and Nomination Committee on 9 June 2007. Professor Chan holds a Master degree of Business Administration from the University of California, Berkeley, U.S., a Bachelor degree of Business Administration and a Doctorate degree of Philosophy from the Chinese University of Hong Kong ("CUHK"). Professor Chan is currently a professor in the Department of Marketing, Executive Associate Dean (MBA), and the Co-Director of the EMBA Program in the CUHK. Professor Chan is also currently the Chairman of Cantonese Opera Advisory Committee. In addition, he is a Member of Social Enterprise Advisory Committee, Energy Advisory Committee, Cantonese Opera Development Fund Advisory Committee, and Task Force for Review on Enhancement of Lump Sum Grant Subvention System. Besides, he is the Adviser of the Quality Tourism Services Association. Professor Chan has approximately 30 years of experience in the education industry.

Directors and Senior Management

Mr. Mak Hing Keung, Thomas, aged 56, 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. Prior to Fortunet e-Commerce Group 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. With effect from 20 July 2018, Mr. Mak resigned as 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. Also with effect from 26 November 2018, Mr. Mak resigned as the non-executive director and ceased to be a member of each of the audit committee and the remuneration committee of Cocoon Holdings Limited, a company listed on the Main Board.

Mr. Ng Yat Cheung, JP, aged 63, 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

Ms. Lau Lee Fong, Rosa, aged 63 is the Chief Operations Officer – Hong Kong. Before joining the Group, Ms. Lau had worked in the Café de Coral Group since 1979 and was retired from the Senior General Manager – Specialty Restaurants of the Café de Coral Group in 2016. Ms. Lau holds a Master's Degree in Business Administration from the University of East Asia, Macau and a Master's Degree of Science in Hotel & Tourism Management from the Hong Kong Polytechnic University. Ms. Lau is a member of the Hotel & Catering International Management Association (U.K.).

Ms. Tsang Wing Ka, aged 44, 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.

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 2018.

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 2018 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.

Board Diversity

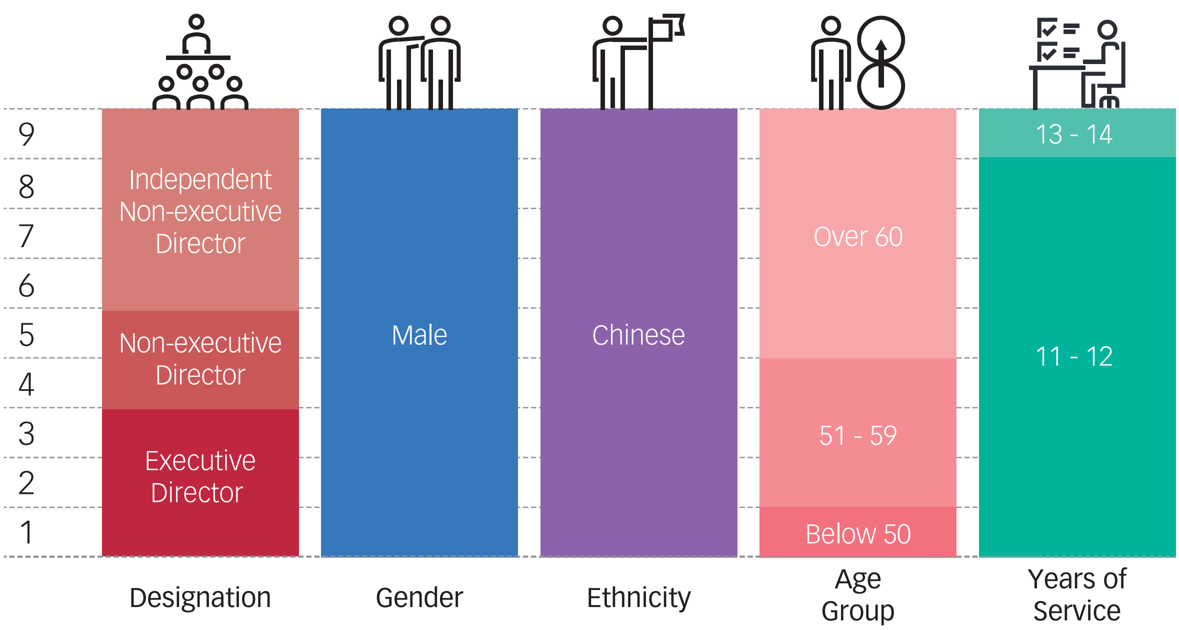
The Company recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Board has adopted a Board Diversity Policy which sets out the approach to achieve and maintain diversity on the Board.

Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company also takes into consideration its own business model and specific needs from time to time in determining the optimal composition of the Board.

Measurable objectives based on four focus areas: gender, ethnicity, age, length of service were considered. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Board Diversity Policy is available on the website of the Company for public information.

As at 31 December 2018, the following is a chart showing the diversity profile of the Board:



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 2018.

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 2018

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held during the year	4	2	1	1
Executive Directors:				
Mr. Chung Wai Ping *(Chairman)*	4/4	N/A	N/A	N/A
Mr. Wong Ka Wing	4/4	N/A	N/A	N/A
Mr. Leung Yiu Chun *(Chief Executive Officer)*	4/4	N/A	N/A	N/A
Mr. Ho Yuen Wah	3/4	N/A	N/A	N/A
Non-executive Directors:				
Mr. Fong Siu Kwong	3/4	N/A	1/1	N/A
Mr. Chan Yue Kwong, Michael	3/4	2/2	N/A	0/1
Independent Non-executive Directors:				
Professor Chan Chi Fai, Andrew	3/4	2/2	N/A	1/1
Mr. Mak Hing Keung, Thomas	4/4	2/2	1/1	N/A
Mr. Ng Yat Cheung	3/4	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 2018:

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 2018, 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 23 May 2019.

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 2018 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 2018 is set out below:

	Number of Individual
Nil – HK$1,000,000	1
HK$1,000,001 – HK$1,500,000	–
HK$1,500,001 – HK$2,000,000	–
HK$2,000,001 – HK$2,500,000	1

Further particulars in relation to Director's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 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 2018, the Directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner.

Corporate Governance Report

The statement by the external auditor of the Company regarding the Directors' reporting responsibilities of the financial statements of the Group is set out in the Independent Auditor's Report on pages 32 to 36 of this annual report.

Company Secretary

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

During the year ended 31 December 2018, 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 32 to 36 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 2018 is as follows:

	2018 **HK$'000**	2017 HK$'000
Audit fee		
– provision for the year	**3,230**	3,080
Non-audit service fees	**293**	290
Total	**3,523**	3,370

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 2018.

Principal Activities and Business Review

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

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

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

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

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

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

Further discussion and analysis of principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on 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 2018 and the Group's financial position at that date are set out in the financial statements on pages 37 to 118.

An interim dividend of HK5.50 cents per ordinary share, totaling approximately HK$55,914,000 were paid on 10 October 2018. The directors recommend the payment of a final dividend of HK6.00 cents per ordinary share, totaling approximately HK$60,997,000 in respect of the year to shareholders on the register of members on 29 May 2019. The proposed final dividend for the year ended 31 December 2018 has been approved at the Company's board meeting on 21 March 2019. Details of dividends for the year ended 31 December 2018 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 Monday 20 May 2019 to Thursday, 23 May 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2018 Annual General Meeting. In order to be eligible to attend and vote at the 2018 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 Friday, 17 May 2019; and

(ii) On Thursday, 30 May 2019, 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, 29 May 2019.

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 120. This summary does not form part of the audited financial statements.

Issued Capital and Share Options

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

Pre-Emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

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

Share Option Schemes

(A) PRE-IPO SHARE OPTION SCHEME

Pursuant to a pre-initial public offering share option scheme adopted by the Company on 9 June 2007 (the "Pre-IPO Share Option Scheme") the Company has granted 15,190,000 options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme. The exercise price shall be 50% of the final offer price to the public. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the grant date. No options were exercised during the year ended 31 December 2017. 200,000 options were forfeited upon the termination of employment during the year under review.

Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2017, both days inclusive. 3,020,000 options were lapsed as a result of expiration of exercise period during the year ended 31 December 2017.

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

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

(B) SHARE OPTION SCHEME

Pursuant to a share option scheme adopted by the Company on 9 June 2007 (the "Share Option Scheme"), 20,130,000 options have been granted and accepted by eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Share Option Scheme. No options were exercised during the year under review. 1,540,000 options where forfeited upon the termination of employment during the year under review. Share options granted under the Share Option Scheme shall vest in 2 tranches, as to 50% and 50% on 1 December 2017 and 1 December 2018, respectively, subject to the fulfilment of certain vesting conditions and are exercisable at HK$2.08 per share and the holders of the said share options may exercise the share options during the period from 2 December 2017 to 1 December 2026, both days inclusive.

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

Details of the share options outstanding as at 31 December 2018 which have been granted under the Share Option Scheme are as follows:

		Number of options					
Name	Date of grant	Options outstanding at 1 January 2018	Granted during the year	Options exercised during the year	Options lapsed on expiry	Options forfeited upon termination of employment	Options outstanding at 31 December 2018
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	16,400,000	–	–	–	(1,540,000)	14,860,000
Total		17,700,000	–	–	–	(1,540,000)	16,160,000

(C) 2017 SHARE OPTION SCHEME

On 25 May 2017, the Company adopted a new share option scheme (the "2017 Share Option Scheme"). Pursuant to the 2017 Share Option Scheme, the Directors may invite participants to take up options at a price determined by the Board of Directors but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares. The option may be exercised in accordance with the terms of the 2017 Share Option Scheme at any time during the option period which may be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the grant date. As at the date of this report, no options have been granted or agreed to be granted pursuant to the 2017 Share Option Scheme.

Report of the Directors

Distributable Reserves

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$821,873,000 of which HK$60,997,000 has been proposed as a final dividend for the year. In addition, the amount of HK$754,151,000 included the Company's share premium account and other reserves which may be distributable provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off debts as and when they fall due in the ordinary course of business.

Charitable Contributions

During the year, the Group made charitable contributions totaling HK$932,000.

Major Customers and Suppliers

For the year ended 31 December 2018, 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 33.5% and 10.1% 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. Wong Ka Wing, Mr. Ho Yuen Wah and the following Non-executive Director namely Mr. Chan Yue Kwong, Michael will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The Non-executive Directors and Independent Non-executive Directors are appointed for periods of two years.

The Company has received annual confirmations of independence from Professor Chan Chi Fai, Andrew, Mr. Mak Hing Keung, Thomas and Mr. Ng Yat Cheung and as at the date of this report still considers them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on 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.

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 30 to 31 of the annual report, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group and the Company to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

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 2018.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2018, the interests and short positions of the directors in the share capital and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Long positions in ordinary shares of the Company:

		Number of shares held, capacity and nature of interest						
Name of Directors	Notes	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Equity derivatives	Total	Percentage of the Company's share capital
Executive Directors								
Mr. Chung Wai Ping	(a) and (b)	–	12,174,222	–	404,452,689	–	416,626,911	40.98
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 2018, 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 2018, 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)	404,452,689	–	404,452,689	39.78
Tin Tao Investments Limited	(a)	–	404,452,689	404,452,689	39.78
BNP Paribas Corporate Services Pte. Ltd.	(a)	–	404,452,689	404,452,689	39.78
BNP Paribas Singapore Trust Corporation Limited	(a)	–	404,452,689	404,452,689	39.78
Joy Mount Investments Limited	(b)	103,283,124	–	103,283,124	10.16
Perfect Plan International Limited	(c)	102,053,976	–	102,053,976	10.04
Whole Gain Holdings Limited		56,795,068	–	56,795,068	5.59

Notes:

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

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

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

Save as disclosed above, as at 31 December 2018, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

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

Report of the Directors

Continuing Connected Transactions

The Company or its designated subsidiaries entered into a master supply agreement with Baker Limited and its subsidiary ("Baker Group"), which are non wholly-owned subsidiaries of the Company. The Company will supply or procure to supply products to Baker Group and vice versa for their daily consumption in the course of their respective business for a period from 1 January 2018 to 31 December 2020. The execution of the master supply agreement constitutes a continuing connected transaction of the Company under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the transactions were disclosed in an announcement published on 29 December 2017. During the year, the Group acquired the remaining 40% equity interests in Baker from a non-controlling shareholder. Upon completion, Baker Limited became an indirect wholly owned subsidiary of the Company. Since then, any transactions with Baker Group cease to be a continuing connected transaction.

During the year ended 31 December 2018, the sales to Baker Group amounted to approximately HK$5,720,000 and there was no purchase from Baker Group.

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

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

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

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

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

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

Report of the Directors

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

	Notes	**2018 HK$'000**	2017 HK$'000
Rental expense to a related party	(i)	**48**	48
Legal fee to a related party	(ii)	**665**	1,052

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 (2017: HK$4,000).

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

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

Sufficiency of Public Float

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

Auditors

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

ON BEHALF OF THE BOARD

Chung Wai Ping
Chairman

Hong Kong
21 March 2019

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 37 to 118, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

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 restaurants and shops that continued to underperform by estimating the recoverable amounts of their property, plant and equipment based on value in use calculations. An impairment of approximately HK$22.9 million has been recorded during the year to reduce the carrying amounts of certain property, plant and equipment of approximately HK$28.9 million to their estimated recoverable amounts. Significant judgements and estimates were involved in the assessment of the recoverable amounts of the property, plant and equipment of those restaurants and shops, including assumptions on the budgeted gross margins of respective restaurants and shops and discount rate. Relevant disclosures of impairment assessment 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 key assumptions used in the value in use calculations by: (i) comparing the budgeted gross margin with historical results and other industry specific statistics; and (ii) assessing the sensitivity of management's estimates and assumptions used in evaluating whether a reasonably possible change in assumptions could cause the carrying amounts to exceed their recoverable amounts. We also involved our internal valuation experts to assist us in evaluating the methodologies used and certain key assumptions and estimates made.
Recognition of deferred tax assets	
As at 31 December 2018, the Group recognised deferred tax assets of approximately HK$100.2 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 set out 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 by comparing the budgeted gross margin with historical results and other industry specific statistics and assessing the sensitivity of management's estimates and assumptions used in evaluating whether a reasonably possible change in assumptions could cause a decrease in future taxable profits; and (ii) comparing the Group's projection to its tax planning strategies, tax reconciling adjustments and historical financial information.

Independent Auditor's Report

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.

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.

- 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.

Independent Auditor's Report

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

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

21 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**4,138,788**	4,025,280
Cost of sales		**(3,677,269)**	(3,635,384)
Gross profit		**461,519**	389,896
Other income and gains, net	5	**33,413**	31,361
Selling and distribution expenses		**(111,871)**	(116,186)
Administrative expenses		**(199,188)**	(184,525)
Other expenses		**(32,409)**	(12,064)
Finance costs	6	**(3,100)**	(3,902)
Share of profits of associates, net		**648**	3,054
PROFIT BEFORE TAX	7	**149,012**	107,634
Income tax expense	10	**(40,261)**	(20,898)
PROFIT FOR THE YEAR		**108,751**	86,736
Attributable to:			
Owners of the parent		**116,390**	89,082
Non-controlling interests		**(7,639)**	(2,346)
		108,751	86,736
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	12	**11.45**	8.76
– Diluted (HK cents)	12	**11.45**	8.76

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR	**108,751**	86,736
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(48,903)**	54,199
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**59,848**	140,935
Attributable to:		
Owners of the parent	**69,032**	143,240
Non-controlling interests	**(9,184)**	(2,305)
	59,848	140,935

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,031,396**	1,215,235
Prepaid land lease payments	14	**86,543**	92,742
Investment properties	15	**29,400**	26,800
Goodwill	16	**38,883**	39,556
Other intangible asset	17	**884**	1,008
Investments in associates	18	**11,964**	9,768
Biological assets	19	**–**	4,077
Deferred tax assets	20	**100,221**	102,850
Rental deposits		**97,495**	109,606
Deposits for purchases of items of property, plant and equipment		**82,884**	68,702
Total non-current assets		**1,479,670**	1,670,344
CURRENT ASSETS			
Inventories	21	**149,745**	145,207
Biological assets	19	**235**	9,450
Trade receivables	22	**42,800**	46,347
Prepayments, deposits and other receivables	23	**167,244**	144,418
Tax recoverable		**6,529**	9,394
Pledged deposits	24	**13,653**	13,781
Cash and cash equivalents	24	**531,416**	530,471
Total current assets		**911,622**	899,068
CURRENT LIABILITIES			
Trade payables	25	**135,177**	216,708
Other payables and accruals	26	**296,443**	268,898
Interest-bearing bank borrowings	27	**149,667**	198,584
Finance lease payable	28	**176**	186
Tax payable		**16,932**	16,260
Total current liabilities		**598,395**	700,636
NET CURRENT ASSETS		**313,227**	198,432
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,792,897**	1,868,776

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	26	**82,400**	90,621
Finance lease payable	28	**397**	604
Due to non-controlling shareholders of subsidiaries	29	**7,581**	19,928
Deferred tax liabilities	20	**16,479**	16,386
Total non-current liabilities		**106,857**	127,539
Net assets		**1,686,040**	1,741,237
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**101,661**	101,661
Reserves	32	**1,565,445**	1,642,283
		1,667,106	1,743,944
Non-controlling interests		**18,934**	(2,707)
Total equity		**1,686,040**	1,741,237

Chung Wai Ping
Director

Leung Yiu Chun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

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

	Notes	**Attributable to owners of the parent**										
		Issued capital HK$'000	**Share premium account HK$'000**	**Capital reserve HK$'000 (note 32)**	**Other reserve HK$'000 (note 32)**	**Share option reserve HK$'000**	**Capital redemption reserve HK$'000**	**Exchange fluctuation reserve HK$'000**	**Retained profits HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total equity HK$'000**
At 1 January 2018		**101,661**	**326,624**	**110,748**	**11,056**	**6,446**	**509**	**996**	**1,185,904**	**1,743,944**	**(2,707)**	**1,741,237**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**116,390**	**116,390**	**(7,639)**	**108,751**
Other comprehensive loss for the year:												
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**–**	**(47,358)**	**–**	**(47,358)**	**(1,545)**	**(48,903)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(47,358)**	**116,390**	**69,032**	**(9,184)**	**59,848**
Equity-settled share option arrangement	31	**–**	**–**	**–**	**–**	**1,870**	**–**	**–**	**–**	**1,870**	**–**	**1,870**
Transfer of share option reserve upon forfeiture of share options	31	**–**	**–**	**–**	**–**	**(660)**	**–**	**–**	**660**	**–**	**–**	**–**
Acquisition of a non-controlling interest		**–**	**–**	**–**	**(30,829)**	**–**	**–**	**–**	**–**	**(30,829)**	**30,825**	**(4)**
Final 2017 dividend	11	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(60,997)**	**(60,997)**	**–**	**(60,997)**
Interim 2018 dividend	11	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(55,914)**	**(55,914)**	**–**	**(55,914)**
At 31 December 2018		**101,661**	**326,624***	**110,748***	**(19,773)***	**7,656***	**509***	**(46,362)***	**1,186,043***	**1,667,106**	**18,934**	**1,686,040**

* These reserve accounts comprise the consolidated reserves of HK$1,565,445,000 (2017: HK$1,642,283,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**149,012**	107,634
Adjustments for:			
Interest income	5	**(8,725)**	(6,798)
Fair value gains on investment properties	5	**(2,600)**	(2,700)
Gain on disposal of items of property, plant and equipment, net	5	**(100)**	(74)
Finance costs	6	**3,100**	3,902
Changes in fair value less costs to sell of biological assets	7	**16**	1,089
Impairment of items of property, plant and equipment	7	**22,911**	2,826
Write-off of items of property, plant and equipment	7	**3,246**	8,149
Amortisation of prepaid land lease payments	7	**2,277**	2,242
Depreciation of property, plant and equipment	7	**238,680**	287,400
Equity-settled share option expense	7	**1,870**	6,389
Amortisation of other intangible asset	7	**83**	82
Impairment of trade receivables	7	**2,146**	–
Provision for onerous contracts	7	**4,090**	–
Share of profits of associates, net		**(648)**	(3,054)
		415,358	407,087
Decrease/(increase) in rental deposits		**10,507**	(7,844)
Decrease/(increase) in inventories		**(7,422)**	1,426
Decrease/(increase) in biological assets		**12,663**	(4,992)
Increase in trade receivables		**(85)**	(13,818)
Decrease/(increase) in prepayments, deposits and other receivables		**(26,010)**	125
Decrease in trade payables		**(75,371)**	(6,431)
Increase in other payables and accruals		**10,835**	5,230
Cash generated from operations		**340,475**	380,783
Interest paid		**(3,079)**	(3,882)
Hong Kong profits tax paid		**(21,783)**	(23,511)
Overseas taxes paid		**(12,293)**	(18,871)
Net cash flows from operating activities		**303,320**	334,519

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(102,843)**	(150,969)
Deposits paid for purchases of items of property, plant and equipment		**(24,660)**	(15,284)
Proceeds from disposal of items of property, plant and equipment		**139**	1,154
Investments in associates		**(2,400)**	(2,700)
Repayment of loan to an associate		**852**	–
Increase in pledged deposits		**(465)**	(482)
Interest received		**8,725**	6,798
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**(70,184)**	53,074
Net cash flows used in investing activities		**(190,836)**	(108,409)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**237,500**	355,000
Repayment of bank loans		**(286,417)**	(344,442)
Capital element of finance lease rental payments		**(183)**	(502)
Interest element of finance lease rental payments		**(21)**	(20)
Dividends paid		**(116,911)**	(157,575)
Decrease in an amount due to a non-controlling shareholder of a subsidiary		**–**	(3,076)
Acquisition of a non-controlling interest		**(4)**	–
Net cash flows used in financing activities		**(166,036)**	(150,615)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(53,552)**	75,495
Cash and cash equivalents at beginning of year		**530,471**	439,375
Effect of foreign exchange rate changes, net		**(15,687)**	15,601
CASH AND CASH EQUIVALENTS AT END OF YEAR		**461,232**	530,471
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**394,432**	472,364
Non-pledged time deposits with original maturity of less than three months when acquired		**66,800**	58,107
Cash and cash equivalents as stated in the consolidated statement of cash flows		**461,232**	530,471
Non-pledged time deposits with original maturity of more than three months when acquired		**70,184**	–
Cash and cash equivalents as stated in the consolidated statement of financial position		**531,416**	530,471

Notes to Financial Statements

31 December 2018

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 2018	2017	Principal activities
Directly held:					
Sky Cheer Group Limited@	British Virgin Islands/ Hong Kong	Ordinary US$1	**100%**	100%	Investment holding
Indirectly held:					
Best Harvest Food Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Production, sale and distribution of products related to restaurant operations
Elite Sky International Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Great Sky International Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Castle Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services

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31 December 2018

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 2018	2017	Principal activities
Sky Fine International Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Great Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Hero Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Sky Leader Industrial Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Triumph International Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Well International Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyford Enterprises Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Restaurant operations and provision of food catering services
Skyland Investments 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

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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 2018	2017	Principal activities
Tao Heung Seafood Hotpot Restaurant Limited	Hong Kong	Ordinary HK$38,000	**100%**	100%	Investment holding, provision of management and promotion services, trading of food and other operating items to restaurant operations and property investment
Tensel Investment Limited	Hong Kong	Ordinary HK$58,749,053	**100%**	100%	Investment holding and provision of treasury services
Top Eagle Development Limited	Hong Kong	Ordinary HK$40,000	**100%**	100%	Property investment
Triumph Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Skyera International Holdings Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Property investment
Tao Heung Management Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Property investment
Tao Heung Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Provision of human resources support, restaurant operations and provision of food catering services
Sky Gain Investment Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
Sky Talent Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
東莞萬好食品有限公司*@	People's Republic of China ("PRC")/ Mainland China	HK$322,100,000 and Renminbi ("RMB") 22,050,000	**100%**	100%	Production, sale and distribution of food products, restaurant operations and provision of food catering services
深圳領鮮稻香飲食有限公司*@	PRC/Mainland China	HK$32,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Basic Tech Limited	Hong Kong	Ordinary HK$28,000	**100%**	100%	Property investment
Huge Sky Investments Limited	Hong Kong	Ordinary HK$291,000	**100%**	100%	Property investment

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31 December 2018

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 2018	2017	Principal activities
Nature Lion Limited	Hong Kong	Ordinary HK$250,000	**100%**	100%	Property investment and sale and distribution of food products and operating items related to restaurant operations
Poly Sky Investment Limited	Hong Kong	Ordinary HK$48,000	**100%**	100%	Restaurant operations and provision of food catering services
Skyking Restaurant Limited	Hong Kong	Ordinary HK$71,000	**100%**	100%	Investment holding
Tin Shing Company Limited	Hong Kong	Ordinary HK$67,500	**100%**	100%	Restaurant operations and provision of food catering services
Miracle Time Enterprise Limited	Hong Kong	Ordinary HK$1,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Skybest International Investment Enterprise Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Restaurant operations and provision of food catering services
Glory Rainbow International Trading Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Loyal Sky Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
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

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31 December 2018

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 2018	2017	Principal activities
廣州市新港稻香海鮮火鍋酒家有限公司*@	PRC/Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市僑光稻香海鮮火鍋酒家有限公司*@	PRC/Mainland China	HK$8,250,000	**100%**	100%	Restaurant operations and provision of food catering services
Hongyet Limited	Hong Kong	Ordinary HK$100,000	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
Sky Trend Holdings Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding, restaurant operations and provision of food catering services
東莞地王稻香飲食有限公司*@	PRC/Mainland China	HK$30,264,000	**100%**	100%	Restaurant operations and provision of food catering services
東莞天景稻香飲食有限公司*@	PRC/Mainland China	HK$36,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Tai Cheong Holdings Group Limited@	British Virgins Islands	Ordinary US$10,000	**100%**	100%	Investment holding
Tai Cheong Bakery Company Limited	Hong Kong	Ordinary HK$300,000	**100%**	100%	Production and retail of bakery products
Tai Cheong (TM) Co., Limited	Hong Kong	Ordinary HK$10,000	**100%**	100%	Provision of promotion services
廣州天暉稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州市百興畜牧飼料有限公司**@ Guangzhou Baixing Pasturage and Feed Co., Ltd.	PRC/Mainland China	RMB3,000,000	**70%**	70%	Production, slaughtering processing and sale of livestock
廣州益生種禽有限公司**@ Guangzhou Yisheng Poultry Co., Ltd.	PRC/Mainland China	RMB4,000,000	**70%**	70%	Production and sale of livestock
廣西萬象城稻香餐飲有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services

Notes to Financial Statements

31 December 2018

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 2018	2017	Principal activities
瀋陽迎喜餐飲有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
武漢漢街稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
廣州東匯城稻香飲食有限公司*@	PRC/Mainland China	HK$12,400,000	**100%**	100%	Restaurant operations and provision of food catering services
上海天浩迎喜餐飲有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
佛山南海天勝稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Keen Port International Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
中山健港稻香飲食有限公司*@	PRC/Mainland China	HK$18,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Sky Joy Enterprise Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
鶴山天欣稻香飲食有限公司*@	PRC/Mainland China	RMB24,000,000	**100%**	100%	Restaurant operations and provision of food catering services
Baker Limited ("Baker") (Note)	Hong Kong	Ordinary HK$10,000	**100%**	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	**100%**	60%	Production and retail of bakery products
Ringer Hut Hong Kong Co., Limited	Hong Kong	Ordinary HK$15,000,000	**51%**	51%	Restaurant operations and provision of food catering services
上海愚園迎喜餐飲管理有限公司*@	PRC/Mainland China	RMB15,000,000	**100%**	100%	Restaurant operations and provision of food catering services

Notes to Financial Statements

31 December 2018

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 2018	2017	Principal activities
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
Sky Earth Development Limited	Hong Kong	Ordinary HK$2	**100%**	100%	Investment holding
深圳市天宜稻香飲食有限公司*@	PRC/Mainland China	RMB10,000,000	**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.

Note: During the year, the Group acquired the remaining 40% equity interests in Baker from a non-controlling shareholder for a cash consideration of HK$4,000. The carrying value of the 40% interests in the net liabilities of Baker as at the date of acquisition was HK$30,825,000. Accordingly, the difference of HK$30,829,000 was recognised in other reserve. Upon completion, Baker became an indirect wholly-owned subsidiary of the Company.

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 2018

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and biological assets which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. 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 2018

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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

HKFRS 9 *FINANCIAL INSTRUMENTS*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for the financial instruments: classification and measurement, impairment and hedge accounting. The comparative information was not restated and continues to be reported under HKAS 39.

(a) Classification and measurement

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, rental deposits, financial assets included in prepayments, deposits and other receivables, pledged deposits and cash and cash equivalents.

The assessment of the Group's business models was made as of the date of initial application i.e. 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of HKFRS 9 has no impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

Notes to Financial Statements

31 December 2018

2.2 Changes in Accounting Policies and Disclosures (continued)

HKFRS 9 *FINANCIAL INSTRUMENTS* (CONTINUED)

(b) Impairment

HKFRS 9 requires an impairment on financial assets that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its trades receivables. Furthermore, the Group applied general approach and recorded twelve-month expected credit losses ("ECLs") that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

HKFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

Except for the reclassification effect below, the adoption of HKFRS 15 did not have material financial impact on the Group's consolidated financial statements.

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15 and, accordingly, advances received from customers of HK$62,970,000 were reclassified from receipt in advance from customers to contract liabilities under other payables and accruals.

Notes to Financial Statements

31 December 2018

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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan, Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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 elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.

Notes to Financial Statements

31 December 2018

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

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. As disclosed in note 35(B) to the financial statements, at 31 December 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$1,182,866,000 (2017: HK$1,411,737,000). Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered before the date of 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 assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

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

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

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.

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.

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2.4 Summary of Significant Accounting Policies (continued)

FAIR VALUE MEASUREMENT

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

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

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), 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.

2.4 Summary of Significant Accounting Policies (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

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;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

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

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

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

Construction in progress represents buildings, equipment and leasehold improvements under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of purchase, construction and installation during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

31 December 2018

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.

2.4 Summary of Significant Accounting Policies (continued)

FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases or 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 financial assets at amortised cost

The Group measures financial assets as amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Notes to Financial Statements

31 December 2018

2.4 Summary of Significant Accounting Policies (continued)

FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

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 (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

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 2018

2.4 Summary of Significant Accounting Policies (continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Notes to Financial Statements

31 December 2018

2.4 Summary of Significant Accounting Policies (continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) (CONTINUED)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Notes to Financial Statements

31 December 2018

2.4 Summary of Significant Accounting Policies (continued)

FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

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 contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

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.

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31 December 2018

2.4 Summary of Significant Accounting Policies (continued)

DERECOGNITION OF FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

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 (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

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

BIOLOGICAL ASSETS

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

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.

Notes to Financial Statements

31 December 2018

2.4 Summary of Significant Accounting Policies (continued)

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.

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

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.

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.

2.4 Summary of Significant Accounting Policies (continued)

INCOME TAX (CONTINUED)

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

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

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

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

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

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

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2.4 Summary of Significant Accounting Policies (continued)

GOVERNMENT GRANTS

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

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for these goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018) (CONTINUED)

Revenue from contracts with customers (continued)

(i) *Restaurant and bakery operations*

Revenue from restaurant and bakery operations is recognised at the point in time when control of the asset is transferred to the customer being at the point the customer purchases the goods at the restaurants and bakery shops.

The Group's loyalty programme allows customers to accumulate points that can be redeemed for products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed and any adjustments to the contract liability balance are charged against revenue.

(ii) *Sale of goods and other items and poultry farm operations*

Revenue from sale of goods and other items and poultry farm operations are recognised at the point in time when control of the asset is transferred to the customer, generally being at the point the customer purchases the goods at shops or upon delivery of the goods.

Some contracts for the sale of goods and other items provide customers with volume rebates. Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against the amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract.

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised 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.

Sponsorship income is recognised 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.

Government grants are recognised where there is reasonable assurance that the government grant will be received and all attaching condition will be complied with, as further explained in the accounting policies for "Government grants" above.

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

REVENUE RECOGNITION (APPLICABLE BEFORE 1 JANUARY 2018) (CONTINUED)

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.

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2.4 Summary of Significant Accounting Policies (continued)

CONTRACT LIABILITIES (APPLICABLE FROM 1 JANUARY 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

SHARE-BASED PAYMENTS

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

SHARE-BASED PAYMENTS (CONTINUED)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. 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.

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.

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2.4 Summary of Significant Accounting Policies (continued)

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

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

Notes to Financial Statements

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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.

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.

Notes to Financial Statements

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3. Significant Accounting Judgements and Estimates (continued)

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. The carrying amount of property, plant and equipment at 31 December 2018 was HK$1,031,396,000 (2017: HK$1,215,235,000). Further details are given in note 13 to the financial statements.

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.

3. Significant Accounting Judgements and Estimates (continued)

ESTIMATION UNCERTAINTY (CONTINUED)

Estimation of fair value of investment properties

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

Estimation of fair value of biological assets

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

Provision for expected credit losses ("ECLs") on trade receivable

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Deferred tax assets

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

Notes to Financial Statements

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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 by geographic market for the years ended 31 December 2018 and 2017, and certain non-current assets information as at 31 December 2018 and 2017, by geographic area.

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Hong Kong	**2,587,803**	2,571,066
Mainland China	**1,550,985**	1,454,214
	4,138,788	4,025,280

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

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Hong Kong	**446,223**	469,074
Mainland China	**835,731**	988,814
	1,281,954	1,457,888

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

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5. Revenue, Other Income and Gains, Net

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers/Revenue		
Restaurant and bakery operations	**3,847,980**	3,774,882
Sale of food and other items	**182,135**	186,733
Poultry farm operations	**108,673**	63,665
	4,138,788	4,025,280

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

Year ended 31 December 2018

	HK$'000
Geographical markets	
Hong Kong	**2,587,803**
Mainland China	**1,550,985**
Total revenue from contracts with customers	**4,138,788**
Timing of revenue recognition	
Goods transferred at a point in time and total revenue from contracts with customers	**4,138,788**

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Restaurant and bakery operations	**55,653**
Sale of food and other items	**6,421**
Poultry farm operations	**896**
	62,970

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Restaurant and bakery operations

The performance obligation is satisfied when the customer obtains control of the promised goods, being at the point the customer purchases the goods at the restaurants and bakery shops. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Sale of food and other items and poultry farm operations

The performance obligation is satisfied when the customer obtains control of the promised goods, being at the point the customer purchases the goods at the shops or upon delivery of the goods. Payment is generally due at the point the customer purchases the goods at shops or within 30 to 90 days from delivery. Some contracts provide customers with volume rebates which give rise to variable consideration subject to constraint.

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31 December 2018

5. Revenue, Other Income and Gains, Net (continued)

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

	Note	2018 HK$'000	2017 HK$'000
Bank interest income		**8,725**	6,798
Government grants*		**6,537**	6,642
Gross rental income		**3,717**	4,290
Sponsorship income		**2,297**	2,419
Fair value gains on investment properties	15	**2,600**	2,700
Gain on disposal of items of property, plant and equipment, net		**100**	74
Foreign exchange differences, net		**2,269**	1,555
Others		**7,168**	6,883
		33,413	31,361

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

6. Finance Costs

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**3,079**	3,882
Interest on finance leases	**21**	20
	3,100	3,902

Notes to Financial Statements

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7. Profit Before Tax

The Group's profit before tax is arrived at after charging:

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**1,365,212**	1,288,462
Depreciation*	13	**238,680**	287,400
Amortisation of prepaid land lease payments*	14	**2,277**	2,242
Amortisation of other intangible asset	17	**83**	82
Employee benefit expense* (including directors' remuneration (note 8)):			
Salaries and bonuses		**1,122,021**	1,112,624
Retirement benefit scheme contributions (defined contribution schemes)		**80,055**	78,557
Equity-settled share option expense		**1,870**	6,389
		1,203,946	1,197,570
Lease payments under operating leases*:			
Minimum lease payments		**355,527**	359,752
Contingent rents		**13,481**	2,781
		369,008	362,533
Auditor's remuneration		**5,093**	4,421
Impairment of trade receivables#		**2,146**	–
Impairment of items of property, plant and equipment#		**22,911**	2,826
Write-off of items of property, plant and equipment#		**3,246**	8,149
Provision for onerous contracts#		**4,090**	–
Changes in fair value less costs to sell of biological assets#	19	**16**	1,089

* The cost of sales for the year amounting to HK$3,677,269,000 (2017: HK$3,635,384,000) included depreciation charges of HK$221,779,000 (2017: HK$270,957,000), amortisation of prepaid land lease payments of HK$2,277,000 (2017: HK$2,242,000), employee benefit expense of HK$1,099,769,000 (2017: HK$1,095,969,000) and operating lease rentals of HK$368,707,000 (2017: HK$362,232,000).

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

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8. Directors' Remuneration

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

	2018 HK$'000	2017 HK$'000
Fees	**1,511**	1,461
Other emoluments:		
Salaries	**3,587**	3,121
Discretionary bonuses	**642**	305
Equity-settled share option expense	**111**	343
Retirement benefit scheme contributions	**65**	65
	4,405	3,834
	5,916	5,295

2018	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	–	213	35	–	11	259
Mr. Wong Ka Wing	491	216	118	–	18	843
Mr. Leung Yiu Chun	–	1,970	292	67	18	2,347
Mr. Ho Yuen Wah	–	1,188	197	44	18	1,447
	491	3,587	642	111	65	4,896
Non-executive directors:						
Mr. Fong Siu Kwong	204	–	–	–	–	204
Mr. Chan Yue Kwong, Michael	204	–	–	–	–	204
	408	–	–	–	–	408
Independent non-executive directors:						
Professor Chan Chi Fai, Andrew	204	–	–	–	–	204
Mr. Mak Hing Keung, Thomas	204	–	–	–	–	204
Mr. Ng Yat Cheung	204	–	–	–	–	204
	612	–	–	–	–	612
	1,511	3,587	642	111	65	5,916

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8. Directors' Remuneration (continued)

2017	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	–	207	22	–	11	240
Mr. Wong Ka Wing	471	216	72	–	18	777
Mr. Leung Yiu Chun	–	1,730	142	206	18	2,096
Mr. Ho Yuen Wah	–	968	69	137	18	1,192
	471	3,121	305	343	65	4,305
Non-executive directors:						
Mr. Fong Siu Kwong	198	–	–	–	–	198
Mr. Chan Yue Kwong, Michael	198	–	–	–	–	198
	396	–	–	–	–	396
Independent non-executive directors:						
Professor Chan Chi Fai, Andrew	198	–	–	–	–	198
Mr. Mak Hing Keung, Thomas	198	–	–	–	–	198
Mr. Ng Yat Cheung	198	–	–	–	–	198
	594	–	–	–	–	594
	1,461	3,121	305	343	65	5,295

Certain directors were granted share options during the year ended 31 December 2016 in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

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9. Five Highest Paid Employees

The five highest paid employees during the year included two (2017: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries	**3,503**	3,198
Discretionary bonuses	**384**	261
Equity-settled share option expense	**66**	149
Retirement benefit scheme contributions	**54**	54
	4,007	3,662

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

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	–
	3	3

Share options were granted to a non-director and non-chief executive highest paid employee during the year ended 31 December 2016 in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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.

	2018 **HK$'000**	2017 HK$'000
Current – Hong Kong		
Charge for the year	**23,707**	22,901
Overprovision in prior years	**(660)**	(496)
Current – Mainland China	**14,869**	13,977
Deferred (note 20)	**2,345**	(15,484)
Total tax charge for the year	**40,261**	20,898

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10. Income Tax (continued)

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

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

	2018		2017	
	HK$'000	%	HK$'000	%
Profit before tax	**149,012**		107,634	
Tax at the Hong Kong statutory tax rate	**24,587**	16.5	17,760	16.5
Difference in tax rates applied for specific provinces in Mainland China	**(563)**		(2,281)	
Effect of withholding tax on 5% or 10% on the distributable profits of the Group's PRC subsidiaries	**(202)**		(6)	
Adjustments in respect of current tax of previous years	**(660)**		(496)	
Income not subject to tax	**(761)**		(1,827)	
Expenses not deductible for tax	**7,883**		2,869	
Tax losses not recognised	**9,910**		5,375	
Profits attributable to associates	**(107)**		(504)	
Others	**174**		8	
Tax charge at the Group's effective rate	**40,261**	27.0	20,898	19.4

The share of tax attributable to associates amounting to approximately HK$366,000 (2017: HK$166,000) is included in "Share of profits of associates, net" in the consolidated statement of profit or loss.

11. Dividends

	2018	2017
	HK$'000	HK$'000
Interim – HK5.50 cents (2017: HK5.50 cents) per ordinary share	**55,914**	55,914
Proposed final – HK6.00 cents (2017: HK6.00 cents) per ordinary share	**60,997**	60,997
	116,911	116,911

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (2017: 1,016,611,000) in issue during the year.

For the year ended 31 December 2018, no adjustment was made to the basic earnings per share amount in respect of a dilution as the share options had no dilutive effect on the basic earnings per share. For the year ended 31 December 2017, the calculation of the diluted earnings per share amount was 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, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 354,166 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:

	2018 **HK$'000**	2017 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**116,390**	89,082

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,016,611,000**	1,016,611,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	354,166
	1,016,611,000	1,016,965,166

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13. Property, Plant and Equipment

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018						
Cost:						
At 1 January 2018	617,649	1,567,941	1,037,426	10,494	153	3,233,663
Additions	243	71,075	36,274	250	2,862	110,704
Transfers	125	–	146	–	(271)	–
Disposals	–	–	(479)	(547)	–	(1,026)
Write-off	–	(77,873)	(58,501)	–	–	(136,374)
Exchange realignment	(13,629)	(39,269)	(29,480)	(181)	(7)	(82,566)
At 31 December 2018	604,388	1,521,874	985,386	10,016	2,737	3,124,401
Accumulated depreciation and impairment:						
At 1 January 2018	174,087	1,081,912	753,730	8,699	–	2,018,428
Provided during the year	13,600	141,846	82,549	685	–	238,680
Disposals	–	–	(440)	(547)	–	(987)
Write-off	–	(77,075)	(56,053)	–	–	(133,128)
Impairment	1,070	21,511	313	17	–	22,911
Exchange realignment	(2,811)	(28,938)	(20,983)	(167)	–	(52,899)
At 31 December 2018	185,946	1,139,256	759,116	8,687	–	2,093,005
Net book value:						
At 31 December 2018	418,442	382,618	226,270	1,329	2,737	1,031,396
31 December 2017						
Cost:						
At 1 January 2017	592,237	1,555,193	1,001,749	12,341	16,783	3,178,303
Additions	583	75,159	72,206	1,347	4,905	154,200
Transfers	10,113	2,414	9,855	–	(22,382)	–
Disposals	–	(9)	(4,488)	(2,043)	–	(6,540)
Write-off	–	(109,160)	(74,527)	(1,352)	–	(185,039)
Exchange realignment	14,716	44,344	32,631	201	847	92,739
At 31 December 2017	617,649	1,567,941	1,037,426	10,494	153	3,233,663
Accumulated depreciation and impairment:						
At 1 January 2017	158,215	982,086	703,664	11,231	–	1,855,196
Provided during the year	13,192	172,578	100,931	699	–	287,400
Disposals	–	(9)	(3,408)	(2,043)	–	(5,460)
Write-off	–	(105,538)	(70,000)	(1,352)	–	(176,890)
Impairment	–	2,826	–	–	–	2,826
Exchange realignment	2,680	29,969	22,543	164	–	55,356
At 31 December 2017	174,087	1,081,912	753,730	8,699	–	2,018,428
Net book value:						
At 31 December 2017	443,562	486,029	283,696	1,795	153	1,215,235

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13. Property, Plant and Equipment (continued)

At 31 December 2018, 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$557,000 (2017: HK$741,000).

As at 31 December 2018, the leasehold land and buildings with an aggregate net carrying amount of approximately HK$50,270,000 (2017: HK$85,498,000) situated in Hong Kong were pledged to secure the banking facilities granted to the Group (note 27).

As at 31 December 2018, the Group's management identified certain restaurants and shops which continued to underperform and the estimated corresponding recoverable amount of their property, plant and equipment. Based on these estimates, an impairment loss of HK$22,911,000 (2017: HK$2,826,000) was recognised to write down the carrying amount of these items of property, plant and equipment to their recoverable amount of HK$6,040,000 (2017: HK$1,428,000) as at 31 December 2018. The estimates of the recoverable amount were based on the value in use of these property, plant and equipment, determined using discount rates in the range of 13.0% to 15.0% (2017: 7.6%).

14. Prepaid Land Lease Payments

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**95,051**	92,682
Recognised during the year	**(2,277)**	(2,242)
Exchange realignment	**(4,020)**	4,611
Carrying amount at 31 December	**88,754**	95,051
Current portion included in prepayments, deposits and other receivables (note 23)	**(2,211)**	(2,309)
Non-current portion	**86,543**	92,742

15. Investment Properties

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**26,800**	24,100
Net gain from a fair value adjustment	**2,600**	2,700
Carrying amount at 31 December	**29,400**	26,800

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 2018 based on valuations performed by Cushman & Wakefield Limited, an independent professionally qualified valuer, at HK$29,400,000. 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.

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15. Investment Properties (continued)

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

At 31 December 2018, the Group's investment properties with a total carrying amount of HK$20,500,000 (2017: HK$18,700,000) were pledged to secure the banking facilities granted to the Group (note 27).

FAIR VALUE HIERARCHY

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: 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 2017:	20,700	3,400	24,100
Net gain from a fair value adjustment recognised in profit or loss	2,200	500	2,700
Carrying amount at 31 December 2017 and 1 January 2018:	**22,900**	**3,900**	**26,800**
Net gain from a fair value adjustment recognised in profit or loss	**2,200**	**400**	**2,600**
Carrying amount at 31 December 2018	**25,100**	**4,300**	**29,400**

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 2018**	**Value 2017**
Car parking spaces	Income capitalisation approach	Estimated rental value (per car parking space per month)	**HK$5,500**	HK$5,500
		Capitalisation rate	**2.88%**	3.13%
Residential property	Income capitalisation approach	Estimated rental value (per sq. ft. per month)	**HK$25.5**	HK$22.0
		Capitalisation rate	**3.25%**	3.13%

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.

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16. Goodwill

	2018 HK$'000	2017 HK$'000
Cost at 1 January	**39,556**	38,803
Exchange realignment	**(673)**	753
Cost and net carrying amount at 31 December	**38,883**	39,556

IMPAIRMENT TESTING OF GOODWILL

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

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

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

	2018 HK$'000	2017 HK$'000
Restaurant operations	**16,766**	16,766
Bakery operations	**7,072**	7,072
Property investment	**61**	61
Poultry farm operations	**14,984**	15,657
	38,883	39,556

The recoverable amounts of the cash-generating units have been determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rates applied to cash flow projections are in the range of 13.0% to 15.0% (2017: 7.6%), and the cash flows beyond the five-year period are extrapolated using an average growth rate of 2.0% (2017: 2.0%).

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2018 and 31 December 2017. 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, adjusted for expected market development.

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

Growth rates – The growth rates used are with reference to the long term average growth rates for the relevant markets.

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17. Other Intangible Asset

	Trademark	
	2018	2017
	HK$'000	HK$'000
Cost at 1 January, net of accumulated amortisation	**1,008**	1,039
Amortisation provided during the year	**(83)**	(82)
Exchange realignment	**(41)**	51
At 31 December	**884**	1,008
At 31 December:		
Cost	**1,334**	1,402
Accumulated amortisation	**(450)**	(394)
Net carrying amount	**884**	1,008

18. Investments in Associates

	2018	2017
	HK$'000	HK$'000
Share of net assets	**10,620**	7,572
Goodwill on acquisition	**122**	122
Provision for impairment	**(152)**	(152)
	10,590	7,542
Loan to an associate	**1,374**	2,226
	11,964	9,768

The loan to an associate is unsecured, interest-free and repayable on demand. In the opinion of the directors, the loan is unlikely to be repaid in the foreseeable future and is considered as part of the Group's net investments in the associate.

The Group's other receivables and payables with associates are disclosed in notes 23 and 26 to the financial statements, respectively.

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18. Investments in Associates (continued)

Particulars of the Group's associates are as follows:

Company name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group 2018	2017	Principal activities
Tin Park Limited	Ordinary shares	Hong Kong	**39%**	39%	Inactive
World Wider International Limited	Ordinary shares	Hong Kong	**39%**	39%	Inactive
Tai Cheong Bakery Pte. Limited	Ordinary shares	Singapore	**49%**	49%	Production and retail of bakery products
Du Hsiao Yueh (Hong Kong) Limited	Ordinary shares	Hong Kong	**30%**	30%	Restaurant operations and provision of food catering services
Forever Drinks Limited	Ordinary shares	Hong Kong	**40%**	–	Provision of food and beverage products
Sky Grand International Development Limited	Ordinary shares	Hong Kong	**40%**	–	Restaurant operations and provision of food catering services

The above associates are indirectly held by the Company.

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

	2018 HK$'000	2017 HK$'000
Share of the associates' profit for the year	**648**	3,054
Share of the associates' total comprehensive income	**648**	3,054
Aggregate carrying amount of the Group's investments in the associates	**11,964**	9,768

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19. Biological Assets

Movements of the biological assets are summarised as follows:

	Broilers HK$'000	Pig breeders HK$'000	Pig commodities HK$'000	Total HK$'000
At 1 January 2017	3,929	2,989	2,260	9,178
Increase due to purchases	68,366	10	1,548	69,924
Additional costs incurred	24,616	2,493	7,313	34,422
Decrease due to retirement and death	(439)	–	–	(439)
Decrease due to sales and consumptions	(90,225)	(849)	(6,049)	(97,123)
Transfers	–	(717)	717	–
Transfer to inventories	(1,787)	–	(5)	(1,792)
Change in fair value less costs to sell	351	–	(1,440)	(1,089)
Exchange realignment	185	151	110	446
At 31 December 2017 and 1 January 2018	**4,996**	**4,077**	**4,454**	**13,527**
Increase due to purchases	**77,456**	**–**	**33**	**77,489**
Additional costs incurred	**26,368**	**1,451**	**4,312**	**32,131**
Decrease due to retirement and death	**(713)**	**–**	**–**	**(713)**
Decrease due to sales and consumptions	**(106,248)**	**(5,952)**	**(7,965)**	**(120,165)**
Transfers	**–**	**599**	**(599)**	**–**
Transfer to inventories	**(1,405)**	**–**	**–**	**(1,405)**
Change in fair value less costs to sell	**(16)**	**–**	**–**	**(16)**
Exchange realignment	**(203)**	**(175)**	**(235)**	**(613)**
At 31 December 2018	**235**	**–**	**–**	**235**

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

	2018	2017
Broilers	**5,003**	261,169
Pig breeders	**–**	675
Pig commodities	**–**	4,371
	5,003	266,215

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19. Biological Assets (continued)

Analysed for reporting purposes as:

	2018 HK$'000	2017 HK$'000
Current assets	235	9,450
Non-current assets	–	4,077
At the end of the reporting period	235	13,527

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

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

FAIR VALUE HIERARCHY

The biological assets were classified under Level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

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

	Valuation technique	Significant unobservable input	Range 2018	 2017
Biological assets	Market approach	Estimated selling price (per kg/unit)	RMB21 to RMB24	RMB15 to RMB2,225

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

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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 2017	37,076	51,334	88,410
Deferred tax credited to the statement of profit or loss during the year (note 10)	646	14,140	14,786
Exchange realignment	153	113	266
Gross deferred tax assets at 31 December 2017 and 1 January 2018	**37,875**	**65,587**	**103,462**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**892**	**(3,601)**	**(2,709)**
Exchange realignment	**(264)**	**(113)**	**(377)**
Gross deferred tax assets at 31 December 2018	**38,503**	**61,873**	**100,376**

DEFERRED TAX LIABILITIES

	Depreciation allowance in excess of related depreciation HK$'000	Withholding taxes HK$'000	Total HK$'000
At 1 January 2017	8,276	9,420	17,696
Deferred tax credited to the statement of profit or loss during the year (note 10)	(692)	(6)	(698)
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018	**7,584**	**9,414**	**16,998**
Deferred tax credited to the statement of profit or loss during the year (note 10)	**(162)**	**(202)**	**(364)**
Gross deferred tax liabilities at 31 December 2018	**7,422**	**9,212**	**16,634**

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20. Deferred Tax (continued)

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

	2018 HK$'000	2017 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**100,221**	102,850
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(16,479)**	(16,386)
	83,742	86,464

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$101,370,000 (2017: HK$77,330,000), subject to agreement by the Hong Kong Inland Revenue Department that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$89,862,000 (2017: HK$66,083,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax has not been fully recognised for withholding taxes that would be payable on certain portions of the unremitted earnings that are subject to withholding taxes of certain of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute these unremitted earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$21,491,000 (2017: HK$21,963,000) as at 31 December 2018.

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

21. Inventories

	2018 HK$'000	2017 HK$'000
Food and beverages, and other operating items for restaurant and bakery operations	**141,183**	135,317
Frozen poultry farm products	**5,784**	4,860
Raw materials for the production of animal feed	**2,778**	5,030
	149,745	145,207

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22. Trade Receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	**44,946**	46,347
Impairment	**(2,146)**	–
	42,800	46,347

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group also grants a credit period from 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 number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2018 HK$'000	2017 HK$'000
Within 1 month	**30,472**	34,290
1 to 3 months	**6,180**	8,458
Over 3 months	**6,148**	3,599
	42,800	46,347

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of year	**–**	–
Impairment losses (note 7)	**2,146**	–
At end of year	**2,146**	–

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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22. Trade Receivables (continued)

Impairment under HKFRS 9 for the year ended 31 December 2018 (continued)

During the year, the expected loss rates for certain customers that were credit impaired were assessed specifically by management. For trade receivables aged more than three months past due but not credit-impaired, management has not observed objective evidence of financial difficulties of the debtors and has been taking credit risk mitigating measures. Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

31 DECEMBER 2018

	Credit impaired receivables	Current	Past due Less than 1 month	Past due 1 to 3 months	Past due Over 3 months	Total
Expected credit loss rate	100.00%	0.69%	1.31%	3.70%	11.49%	4.77%
Gross carrying amount (HK$'000)	1,192	31,496	4,282	3,023	4,953	44,946
Expected credit losses (HK$'000)	1,192	217	56	112	569	2,146

Impairment under HKAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	36,222
Less than 1 month past due	5,140
1 to 3 months past due	1,636
Over 3 months past due	3,349
	46,347

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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23. Prepayments, Deposits and Other Receivables

	2018 HK$'000	2017 HK$'000
Prepayments	39,173	43,077
Prepaid land lease payments (note 14)	2,211	2,309
Deposits and other receivables	125,860	99,032
	167,244	144,418

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

Included in the Group's other receivables are amounts due from the Group's associates of HK$2,475,000 (2017: HK$995,000) which are unsecured, interest-free and repayable on demand.

24. Cash and Cash Equivalents and Pledged Time Deposits

	2018 HK$'000	2017 HK$'000
Cash and bank balances	394,432	472,364
Time deposits	150,637	71,888
	545,069	544,252
Less: Pledged deposits for short term bank borrowings	(13,653)	(13,781)
Cash and cash equivalents	531,416	530,471

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$336,704,000 (2017: HK$351,045,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one year (2017: fifteen days and three months) depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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25. Trade Payables

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

	2018 HK$'000	2017 HK$'000
Within 1 month	**124,546**	143,468
1 to 2 months	**5,964**	52,583
2 to 3 months	**1,137**	10,458
Over 3 months	**3,530**	10,199
	135,177	216,708

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

26. Other Payables and Accruals

	Note	**2018 HK$'000**	2017 HK$'000
Deferred rental		**77,585**	84,138
Receipt in advance		**–**	62,970
Contract liabilities	(a)	**64,217**	–
Accrued payroll		**118,678**	111,273
Other payable and accruals		**109,542**	91,705
Deferred income in respect of government grants and sponsorship income		**8,821**	9,433
		378,843	359,519
Less: Portion classified as non-current liabilities		**(82,400)**	(90,621)
Portion classified as current liabilities		**296,443**	268,898

Note:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Restaurant and bakery operations	**56,610**	55,653
Sale of food and other items	**7,607**	6,421
Poultry farm operations	**–**	896
	64,217	62,970

Contract liabilities include short-term advances received to deliver goods and catering services.

Other payables are non-interest-bearing.

Included in the Group's other payables and accruals is an amount due to an associate of HK$14,035,000 (2017: Nil) which is unsecured, interest-free and repayable on demand.

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27. Interest-Bearing Bank Borrowings

	2018			2017		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
– Bank loans, secured	**2.3–3.7**	**2019**	**139,667**	1.9–2.6	2018	143,333
– Current portion of long term bank loans, secured	**–**	**–**	**–**	2.1	2018	8,584
– Long term bank loans repayable on demand, secured (note (i))	**3.5–3.6**	**2020**	**10,000**	2.2–2.6	2019-2020	46,667
			149,667			198,584

Notes:

(i) Certain term loans of the Group with a carrying amount of HK$46,667,000 (2017: HK$90,000,000) containing repayment on demand clauses. Accordingly, a portion of those loans due for repayment after one year with a carrying amount of HK$10,000,000 (2017: HK$46,667,000) 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:

Analysed into:

	2018 HK$'000	2017 HK$'000
Bank loans repayable:		
Within one year	**139,667**	151,917
In the second year	**10,000**	36,667
In the third to fifth years, inclusive	**–**	10,000
	149,667	198,584

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

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

(a) mortgages over certain of the Group's leasehold land and buildings situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of HK$50,270,000 (2017: HK$85,498,000);

(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$20,500,000 (2017: HK$18,700,000); and

(c) the pledge of certain of the Group's time deposits amounting to HK$13,653,000 (2017: HK$13,781,000).

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28. Finance Lease Payable

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

At 31 December 2018, 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**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**191**	207	**176**	186
In the second year	**186**	201	**176**	186
In the third to fifth years, inclusive	**226**	432	**221**	418
Total minimum finance lease payments	**603**	840	**573**	790
Future finance charges	**(30)**	(50)		
Total net finance lease payable	**573**	790		
Portion classified as current liabilities	**(176)**	(186)		
Non-current portion	**397**	604		

The above finance lease is denominated in Renminbi and bears interest at a rate of 3.0% (2017: 3.0%) per annum.

29. Due to Non-Controlling Shareholders of Subsidiaries

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

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30. Issued Capital

	Company	
	2018	2017
	HK$'000	HK$'000
Authorised: 23,400,000,000 (2017: 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 (2017: 1,016,611,000) ordinary shares of HK$0.10 each	**101,661**	101,661

31. Share Option Schemes

SHARE OPTIONS

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

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

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

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

The offer of a grant of share options under the Schemes may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and may commence from the date of the offer of the share options, and ends on a date which is not later than 10 years from the date of the offer of the share options.

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31. Share Option Schemes (continued)

PRE-IPO SHARE OPTION SCHEME

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

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

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

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

	2017	
	Weighted average exercise price HK$	Number of options per share'000
At 1 January	1.59	3,220
Forfeited during the year	1.59	(200)
Lapsed during the year	1.59	(3,020)
At 31 December	1.59	–

31. Share Option Schemes (continued)

PRE-IPO SHARE OPTION SCHEME (CONTINUED)

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

	Number of options '000	Exercise price HK$ per share	Exercise period
2017	–	1.59	29 June 2009 to 28 June 2017

During the year ended 31 December 2017, no share options were granted, 200,000 options were forfeited upon the termination of employment and 3,020,000 options were lapsed during the last reporting year as a result of expiration of exercise period. Forfeited share options with an aggregate carrying amount of HK$6,205,000 were transferred from the share option reserve to retained profits during the year.

SHARE OPTION SCHEME

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

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

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

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

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

	2018		2017	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**2.08**	**17,700**	2.08	20,050
Forfeited during the year	**2.08**	**(1,540)**	2.08	(2,350)
At 31 December	**2.08**	**16,160**	2.08	17,700

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31. Share Option Schemes (continued)

SHARE OPTION SCHEME (CONTINUED)

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

	Number of options '000	Exercise price HK$ per share	Exercise period
2018	16,160	2.08	2 December 2017 to 1 December 2026
2017	17,700	2.08	2 December 2017 to 1 December 2026

The Group recognised a share option expense of approximately HK$1,870,000 (2017: approximately HK$6,389,000) during the year ended 31 December 2018. The forfeited share options with an aggregate carrying amount of approximately HK$660,000 (2017: approximately HK$527,000) was transferred from the share option reserve to retained profits during the year.

2017 SHARE OPTION SCHEME

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

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

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 16,160,000 (2017: 17,700,000) additional ordinary shares of the Company and additional share capital of HK$1,616,000 (2017: HK$1,770,000) and share premium of HK$31,997,000 (2017: HK$35,046,000) (before share issue expenses).

At the date of approval of these financial statements, the Company had no share options outstanding under 2017 Share Option Scheme and 16,160,000 share options outstanding under the Share Option Scheme, which represented approximately 1.59%, of the Company's shares in issue as at that date.

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32. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 41 of the financial statements.

CAPITAL RESERVE

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

OTHER RESERVE

The other reserve of the Group represents (i) the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired; (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; and (iii) the differences between the acquisitions of equity interests attributable to these then non-controlling shareholders of subsidiaries and the considerations paid by the Group after the Listing of the Company's shares.

33. Notes to the Consolidated Statement of Cash Flows

(A) MAJOR NON-CASH TRANSACTIONS

The Group had the following major non-cash transactions:

(i) During the year ended 31 December 2017, the Group entered into rental agreements in respect of its restaurant properties under operating leases. Pursuant to the terms and conditions of the rental agreements, the Group is required to restore the restaurant properties to the conditions as stipulated in the rental agreements. Accordingly, the Group has accrued and capitalised the estimated restoration cost of HK$521,000 for such obligations.

(ii) During the year ended 31 December 2017, the Group entered into finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK$929,000.

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33. Notes to the Consolidated Statement of Cash Flows (continued)

(B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Interest-bearing bank borrowings HK$'000	Finance lease payable HK$'000	Due to non-controlling shareholders of subsidiaries HK$'000
2018			
At 1 January 2018	**198,584**	**790**	**19,928**
Changes from financing cash flows	**(48,917)**	**(183)**	**–**
Transfer to other payables and accruals	**–**	**–**	**(12,006)**
Foreign exchange movement	**–**	**(34)**	**(341)**
At 31 December 2018	**149,667**	**573**	**7,581**
2017			
At 1 January 2017	188,026	346	22,474
Changes from financing cash flows	10,558	(502)	(3,076)
New finance lease	–	929	–
Foreign exchange movement	–	17	530
At 31 December 2017	198,584	790	19,928

34. Contingent Liabilities

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

	2018 HK$'000	2017 HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**18,670**	18,958

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35. Operating Lease Arrangements

(A) AS LESSOR

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

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**56**	4,003
In the second to fifth years, inclusive	**–**	2,214
	56	6,217

(B) AS LESSEE

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

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**319,092**	360,590
In the second to fifth years, inclusive	**647,009**	743,941
Beyond five years	**216,765**	307,206
	1,182,866	1,411,737

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

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36. Commitments

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

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Leasehold improvements, furniture, fixtures and equipment	**17,811**	6,890
Buildings	**–**	15,972
	17,811	22,862

37. Related Party Transactions

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

	Notes	2018 HK$'000	2017 HK$'000
Rental expense to a related party	(i)	**48**	48
Management fee from associates	(ii)	**1,305**	560
Sales of food and other operating items to associates	(iii)	**4,727**	1,655

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 (2017: HK$4,000).

(ii) The management fee was charged to associates based on mutually agreed terms (2017: 3% of gross receipt).

(iii) Sales of food and other operating items to associates were charged based on mutually agreed terms and conditions.

(B) Compensation of key management personnel of the Group

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

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

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38. Financial Instruments by Category

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

FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Financial assets at amortised cost:		
Rental deposits	97,495	109,606
Trade receivables	42,800	46,347
Financial assets included in prepayments, deposits and other receivables	125,860	99,032
Pledged deposits	13,653	13,781
Cash and cash equivalents	531,416	530,471
	811,224	799,237

FINANCIAL LIABILITIES

	2018 HK$'000	2017 HK$'000
Financial liabilities at amortised cost:		
Trade payables	135,177	216,708
Financial liabilities included in other payables and accruals	290,476	275,842
Interest-bearing bank borrowings	149,667	198,584
Finance lease payable	573	790
Due to non-controlling shareholders of subsidiaries	7,581	19,928
	583,474	711,852

39. Fair Value of Financial Instruments

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

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management. 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 a finance lease payable, interest-bearing bank borrowings, and amounts due to non-controlling shareholders of subsidiaries as at 31 December 2018 was assessed to be insignificant. In the opinion of the directors, their carrying amounts are not significantly different from their respective fair values.

40. Financial Risk Management Objectives and Policies

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

INTEREST RATE RISK

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

For Hong Kong dollar floating-rate borrowings, assuming that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year with all other variables held constant, a 50 basis point increase/decrease in interest rates at 31 December 2018 and 2017 would have decreased/increased the Group's profit before tax by HK$748,000 and HK$993,000, respectively.

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40. Financial Risk Management Objectives and Policies (continued)

CREDIT RISK

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

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	–	–	–	44,946	44,946
Rental deposits**	97,495	–	–	–	97,495
Financial assets included in prepayments, deposits and other receivables**	125,860	–	–	–	125,860
Pledged deposits					
– Not yet past due	13,653	–	–	–	13,653
Cash and cash equivalents					
– Not yet past due	531,416	–	–	–	531,416
	768,424	–	–	44,946	813,370

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables and rental deposits are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Maximum exposure as at 31 December 2017

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

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40. Financial Risk Management Objectives and Policies (continued)

FOREIGN CURRENCY RISK

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

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

LIQUIDITY RISK

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

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

	2018			
	Repayable on demand HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	–	135,177	–	135,177
Financial liabilities included in other payables and accruals	14,035	211,599	68,931	294,565
Interest-bearing bank borrowings (note)	149,667	–	–	149,667
Finance lease payable	–	191	412	603
Due to non-controlling shareholders of subsidiaries	–	–	7,581	7,581
	163,702	346,967	76,924	587,593

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40. Financial Risk Management Objectives and Policies (continued)

LIQUIDITY RISK (CONTINUED)

	2017			
	Repayable on demand HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	–	216,708	–	216,708
Other payables and accruals	–	201,280	74,562	275,842
Interest-bearing bank borrowings (note)	190,000	8,614	–	198,614
Finance lease payable	–	207	633	840
Due to non-controlling shareholders of subsidiaries	–	–	19,928	19,928
	190,000	426,809	95,123	711,932

Note:

Included in the above interest-bearing bank borrowings are term loans with a carrying amount of HK$46,667,000 (2017: HK$90,000,000), which loan agreements contain a repayment on demand clause giving the bank the unconditional right to call in the loans at any time. Therefore, for the purpose of the above maturity profile, the total amount is classified as "repayable on demand". Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of approval of the financial statements; the Group's compliance with the loan covenants; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

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

	Less than 1 year HK$'000	**1 to 5 years** HK$'000	**Total** HK$'000
As at 31 December 2018	**140,713**	**10,137**	**150,850**
As at 31 December 2017	153,534	47,176	200,710

Notes to Financial Statements

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40. Financial Risk Management Objectives and Policies (continued)

CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is required to comply with certain externally imposed capital requirements set out in certain of its banking facility agreements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

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:

	2018 **HK$'000**	2017 HK$'000
Total borrowings	**150,240**	199,374
Total equity attributable to owners of the parent	**1,667,106**	1,743,944
Gearing ratio	**9.0%**	11.4%

Notes to Financial Statements

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41. Statement of Financial Position of the Company

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

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**446,450**	445,350
CURRENT ASSETS		
Prepayments	**172**	200
Due from a subsidiary	**483,966**	482,979
Cash and cash equivalents	**2,197**	2,139
Total current assets	**486,335**	485,318
CURRENT LIABILITIES		
Other payables and accruals	**1,631**	1,254
NET CURRENT ASSETS	**484,704**	484,064
Net assets	**931,154**	929,414
EQUITY		
Issued capital	**101,661**	101,661
Reserves (note)	**829,493**	827,753
Total equity	**931,154**	929,414

Notes to Financial Statements

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41. Statement of Financial Position of the Company (continued)

Note:

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

	Share premium account HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Other reserve* HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	326,624	6,789	509	427,527	107,063	868,512
Profit and total comprehensive income for the year	–	–	–	–	117,159	117,159
Equity-settled share option arrangement	–	6,389	–	–	–	6,389
Transfer of share option reserve upon forfeiture and lapse of share options	–	(6,732)	–	–	–	(6,732)
Final 2016 dividend	–	–	–	–	(60,997)	(60,997)
Special 2016 dividend	–	–	–	–	(40,664)	(40,664)
Interim 2017 dividend	–	–	–	–	(55,914)	(55,914)
At 31 December 2017 and 1 January 2018	**326,624**	**6,446**	**509**	**427,527**	**66,647**	**827,753**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**117,441**	**117,441**
Equity-settled share option arrangement	**–**	**1,870**	**–**	**–**	**–**	**1,870**
Transfer of share option reserve upon forfeiture of share options	**–**	**(660)**	**–**	**–**	**–**	**(660)**
Final 2017 dividend	**–**	**–**	**–**	**–**	**(60,997)**	**(60,997)**
Interim 2018 dividend	**–**	**–**	**–**	**–**	**(55,914)**	**(55,914)**
At 31 December 2018	**326,624**	**7,656**	**509**	**427,527**	**67,177**	**829,493**

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

42. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 21 March 2019.

Investment Properties

Principal Properties Held for Investment Purposes

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				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,138,788**	4,025,280	4,287,166	4,546,478	4,489,244
Cost of sales	**(3,677,269)**	(3,635,384)	(3,766,225)	(4,049,234)	(3,953,628)
Gross profit	**461,519**	389,896	520,941	497,244	535,616
Other income and gains, net	**33,413**	31,361	19,502	26,462	22,786
Selling and distribution expenses	**(111,871)**	(116,186)	(114,605)	(105,497)	(98,652)
Administrative expenses	**(199,188)**	(184,525)	(191,966)	(195,100)	(194,116)
Other expenses	**(32,409)**	(12,064)	(12,743)	(19,682)	(10,817)
Finance costs	**(3,100)**	(3,902)	(5,185)	(4,618)	(3,340)
Share of profits/(losses) of associates, net	**648**	3,054	512	(2)	(1)
PROFIT BEFORE TAX	**149,012**	107,634	216,456	198,807	251,476
Income tax expense	**(40,261)**	(20,898)	(44,530)	(37,445)	(50,818)
PROFIT FOR THE YEAR	**108,751**	86,736	171,926	161,362	200,658
Attributable to:					
Owners of the parent	**116,390**	89,082	177,845	171,323	207,368
Non-controlling interests	**(7,639)**	(2,346)	(5,919)	(9,961)	(6,710)
	108,751	86,736	171,926	161,362	200,658

Assets, Liabilities and Non-Controlling Interests

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**2,391,292**	2,569,412	2,559,213	2,671,712	2,617,071
TOTAL LIABILITIES	**(705,252)**	(828,175)	(807,725)	(883,703)	(812,899)
NON-CONTROLLING INTERESTS	**(18,934)**	2,707	402	(6,163)	(16,756)
	1,667,106	1,743,944	1,751,890	1,781,846	1,787,416

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