# TANSH Global Food Group Co., Ltd
# 國際天食集團有限公司

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

**(Stock Code: 3666)**

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

### FINANCIAL HIGHLIGHTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2017** | 2016 | **% Change Increase/ (decrease)** |
| Revenue *(RMB'000)* | **1,911,974** | 2,001,001 | (4.4%) |
| Gross profit[1] *(RMB'000)* | **1,395,314** | 1,433,929 | (2.7%) |
| Gross margin[2] | **73.0%** | 71.7% | 1.3% |
| Profit for the year *(RMB'000)* | **101,938** | 34,246 | 197.7% |
| Net profit margin[3] | **5.3%** | 1.7% | 3.6% |
| Earnings per share – Basic | **RMB4.6 cents** | RMB2.0 cents | |
| Number of restaurants[4] (as at 31 December) | **121** | 127 | |

*Notes:*

1. The calculation of gross profit is based on revenue less cost of sales.
2. The calculation of gross margin is based on gross profit divided by revenue.
3. Net profit margin is calculated as profit for the year divided by revenue.
4. The number of restaurants included 23 stores of POKKA HK, but excluded Mai Chi Ling licensed stores.

## ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of TANSH Global Food Group Co., Ltd (the "**Company**" or "**TANSH Global**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017, together with comparative figures for the year ended 31 December 2016, as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*Year ended 31 December 2017*

| | | **Year ended 31 December** | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| REVENUE | *4* | **1,911,974** | 2,001,001 |
| Cost of sales | | **(516,660)** | (567,072) |
| Gross profit | | **1,395,314** | 1,433,929 |
| Other income | *4* | **39,282** | 46,665 |
| Selling and distribution expenses | | **(1,125,076)** | (1,217,982) |
| Administrative expenses | | **(143,099)** | (164,484) |
| Other expenses | | **(9,517)** | (23,693) |
| Finance costs | *6* | **(17,691)** | (14,023) |
| PROFIT BEFORE TAX | *5* | **139,213** | 60,412 |
| Income tax expense | *7* | **(37,275)** | (26,166) |
| PROFIT FOR THE YEAR | | **101,938** | 34,246 |
| Attributable to: | | | |
| Owners of the parent | | **101,677** | 34,975 |
| Non-controlling interests | | **261** | (729) |
| | | **101,938** | 34,246 |
| Earnings per share attributable to ordinary equity holders of the parent | | | |
| – Basic | *9* | **RMB4.6 cents** | RMB2.0 cents |
| – Diluted | *9* | **RMB4.6 cents** | RMB2.0 cents |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*Year ended 31 December 2017*

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **PROFIT FOR THE YEAR** | **101,938** | 34,246 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **(10,566)** | 19,813 |
| Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods | **(10,566)** | 19,813 |
| Other comprehensive loss not to be reclassified to profit or loss in subsequent periods: | | |
| Equity investments designated as fair value through other comprehensive loss: | | |
| Changes in fair value | **(155,735)** | (122,928) |
| Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods | **(155,735)** | (122,928) |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | **(166,301)** | (103,115) |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | **(64,363)** | (68,869) |
| Attributable to: | | |
| Owners of the parent | **(59,070)** | (68,140) |
| Non-controlling interests | **(5,293)** | (729) |
| | **(64,363)** | (68,869) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2017*

| | *Notes* | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | | **550,055** | 675,545 |
| Goodwill | | **12,645** | 13,532 |
| Other intangible assets | | **37,050** | 43,707 |
| Non-current financial assets | | **67,755** | 224,470 |
| Long-term rental deposits | | **95,052** | 107,379 |
| Deferred tax assets | | **65,729** | 80,407 |
| Pledged deposits | *12* | **11,564** | 40,000 |
| Loan to a non-controlling shareholder | *11* | **44,386** | 47,498 |
| Other long-term receivables | *11* | **24,241** | 30,413 |
| Total non-current assets | | **908,477** | 1,262,951 |
| **CURRENT ASSETS** | | | |
| Inventories | | **34,257** | 37,509 |
| Trade receivables | *10* | **26,287** | 26,654 |
| Prepayments, deposits and other receivables | *11* | **196,420** | 205,039 |
| Financial asset at fair value through profit or loss | | **226** | 242 |
| Pledged deposits | *12* | **151,910** | 20,000 |
| Cash and cash equivalents | *12* | **305,224** | 233,390 |
| Total current assets | | **714,324** | 522,834 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *13* | **49,840** | 66,841 |
| Interest-bearing bank loans | | **348,929** | 203,532 |
| Tax payable | | **26,458** | 21,365 |
| Other payables and accruals | *14* | **126,268** | 277,372 |
| Deferred income | | **2,800** | 3,478 |
| Total current liabilities | | **554,295** | 572,588 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **160,029** | (49,754) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,068,506** | 1,213,197 |

| | Notes | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Long-term defer payment | | **24,241** | 30,413 |
| Long-term payables | | **78,158** | 81,578 |
| Interest-bearing bank loans | | **64,573** | 138,283 |
| Deferred tax liabilities | | **1,129** | 481 |
| Total non-current liabilities | | **168,101** | 250,755 |
| **Net assets** | | **900,405** | 962,442 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *15* | **18,393** | 18,393 |
| Reserves | | **815,194** | 871,938 |
| | | **833,587** | 890,331 |
| **Non-controlling interests** | | **66,818** | 72,111 |
| Total equity | | **900,405** | 962,442 |

## Notes to Financial Statements

### 1. CORPORATE AND GROUP INFORMATION

TANSH Global Food Group Co., Ltd (formerly known as Xiao Nan Guo restaurants holdings Limited) is a limited liability company incorporated in the Cayman Islands. The registered office is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the operation of chain restaurants in Chinese Mainland, Hong Kong and other regions. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the parent of the Group is TANSH Global Food Group Co., Ltd, which is incorporated in the Cayman Islands.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (chapter 622 of the laws of Hong Kong). They have been prepared under the historical cost convention, except for a financial asset at fair value through profit or loss and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") 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 Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed to risk, 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 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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

None of the above amendments to IFRS has had a significant effect on these financial statements.

## 3. OPERATING SEGMENT INFORMATION

Since the Group completed the acquisition of Million Rank (HK) Limited and its subsidiary Million Rank (Macau) Ltd. (collectively referred to as "**POKKA HK**") on 7 January 2015, the Group has the following two reportable operating segments based on their brands and services:

(a) TANSH Global Business (including main brands: Shanghai Min, Maison De L'Hui, The Dining Room, Oreno, Wolfgang Puck and The BOATHOUSE)

(b) POKKA HK Business (the business acquired in January 2015 which includes main brands: Pokka Café and Tonkichi)

Management of the Group monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, dividend income, equity-settled share option expense, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

| | Year ended 31 December 2017 | | |
|---|---|---|---|
| | **TANSH Global** | **POKKA HK** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment revenue** | | | |
| Sales to external customers | 1,637,197 | 274,777 | 1,911,974 |
| Revenue from continuing operations | | | 1,911,974 |
| **Segment results** | 160,971 | 1,120 | 162,091 |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | 60 |
| Dividend income from non-current financial assets | | | 800 |
| Equity-settled share option expense | | | (2,326) |
| Interest income | | | 2,242 |
| Finance costs | | | (17,691) |
| Corporate and other unallocated expenses | | | (5,963) |
| Profit before tax | | | 139,213 |
| **Segment assets** | 670,706 | 452,584 | 1,123,290 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (35,142) |
| Corporate and other unallocated assets | | | 534,653 |
| Total assets | | | 1,622,801 |
| **Segment liabilities** | 261,255 | 55,194 | 316,449 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (35,142) |
| Corporate and other unallocated liabilities | | | 441,089 |
| Total liabilities | | | 722,396 |
| **Other segment information:** | | | |
| Depreciation and amortisation | 135,083 | 18,081 | 153,164 |
| Capital expenditure* | 25,002 | 4,788 | 29,790 |

| | Year ended 31 December 2016 | | |
|---|---|---|---|
| | **TANSH Global** | **POKKA HK** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment revenue** | | | |
| Sales to external customers | 1,691,237 | 309,764 | 2,001,001 |
| Revenue from continuing operations | | | 2,001,001 |
| **Segment results** | 75,663 | 2,937 | 78,600 |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | 60 |
| Dividend income from non-current financial assets | | | 800 |
| Equity-settled share option expense | | | (3,000) |
| Interest income | | | 4,133 |
| Finance costs | | | (14,023) |
| Loss on disposal of a subsidiary | | | (2,621) |
| Corporate and other unallocated expenses | | | (3,537) |
| Profit before tax | | | 60,412 |
| **Segment assets** | 952,326 | 493,671 | 1,445,997 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (34,251) |
| Corporate and other unallocated assets | | | 374,039 |
| Total assets | | | 1,785,785 |
| **Segment liabilities** | 383,769 | 110,164 | 493,933 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (34,251) |
| Corporate and other unallocated liabilities | | | 363,661 |
| Total liabilities | | | 823,343 |
| **Other segment information:** | | | |
| Depreciation and amortisation | 149,657 | 23,160 | 172,817 |
| Capital expenditure* | 131,640 | 8,878 | 140,518 |

* Capital expenditure consists of additions to property and equipment, and other intangible assets (including assets from the acquisition of a subsidiary).

**Geographical information**

*(a) Revenue from external customers*

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Chinese Mainland | **1,373,308** | 1,374,891 |
| Hong Kong | **526,891** | 607,533 |
| Others | **11,775** | 18,577 |
| | **1,911,974** | 2,001,001 |

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

*(b) Non-current assets*

| | **31 December** | 31 December |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Chinese Mainland | **470,869** | 593,265 |
| Hong Kong | **223,273** | 246,129 |
| Others | **660** | 769 |
| | **694,802** | 840,163 |

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

**Information about a major customer**

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2017 and 2016, segment information is not presented in accordance with IFRS 8 Operating Segments.

## 4. REVENUE AND OTHER INCOME

Revenue, represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, net of sales taxes and surcharges.

An analysis of revenue and other income is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Restaurant operations | **1,888,517** | 1,982,795 |
| Other revenue | **23,457** | 18,206 |
| | **1,911,974** | 2,001,001 |
| **Other income** | | |
| Government grants* | **7,639** | 25,373 |
| Dividend income from non-current financial assets | **800** | 800 |
| Membership fee income | **7,354** | 5,849 |
| Bank interest income | **5,130** | 4,133 |
| Management fee income | **2,691** | 3,230 |
| Foreign exchange differences, net | **–** | 595 |
| Compensation income for a store with operation early terminated | **2,170** | 4,900 |
| Reversal of impairment for property and equipment | **11,940** | – |
| Others | **1,558** | 1,785 |
| | **39,282** | 46,665 |

* There is no unfulfilled conditions or contingencies attaching to government grants that had been recognized.

## 5. PROFIT BEFORE TAX

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

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Cost of inventories consumed | | **516,660** | 567,072 |
| Depreciation | | **148,340** | 168,374 |
| Amortisation of other intangible assets | | **4,824** | 4,443 |
| Minimum lease payments under operating leases on buildings | | **350,008** | 368,272 |
| Auditors' remuneration | | **3,000** | 4,700 |
| Employee benefit expense (including directors' and chief executive's remuneration): | | | |
| Wages and salaries | | **428,781** | 455,796 |
| Equity-settled share option expense | | **2,326** | 3,000 |
| Defined contribution pension schemes | | **91,341** | 112,836 |
| | | **522,448** | 571,632 |
| Foreign exchange differences, net | | **619** | (595) |
| Bank interest income | *4* | **(5,130)** | (4,133) |
| Loss on disposal of items of property and equipment | | **6,232** | 9,113 |
| (Reversal)/provision of impairment for property and equipment* | | **(11,940)** | 2,019 |
| Loss on acquisition of a non-current financial asset | | **–** | 4,031 |
| Loss on disposal of a subsidiary** | | **–** | 2,621 |

* Impairment provision for property and equipment is included in "other expenses" in the consolidated statement of profit or loss. Reversal of impairment provision for property and equipment is included in "other income" in consolidated statement of profit or loss.

** Loss on disposal of a subsidiary is included in "other expenses" in consolidated statement of profit or loss.

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank loans | **17,944** | 14,937 |
| Less: Interest capitalised | **(253)** | (914) |
| | **17,691** | 14,023 |

## 7. INCOME TAX

| | Year ended 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Current – Chinese Mainland charged for the year | **16,941** | 16,063 |
| Current – Hong Kong and elsewhere charged for the year | **5,245** | 4,857 |
| Deferred tax | **15,089** | 5,246 |
| Total tax charge for the year | **37,275** | 26,166 |

According to the PRC Corporate Income Tax Law, the applicable income tax rates for both domestic and foreign investment enterprises in the People's Republic of China (the "**PRC**") are unified at 25%.

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

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

Pursuant to the International Business Companies Act, 1984 (the "**IBC Act**") of the BVI, international business companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax and all forms of withholding tax. Accordingly, the subsidiaries incorporated in the BVI are not subject to tax.

According to the Macau Complementary Tax Law, taxable profits below MOP600,000 are exempted from tax, and taxable profits over MOP600,000 are subject to tax at the rate of 12%.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Group and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **139,213** | 60,412 |
| Tax at the statutory tax rate of 25% (2016: 25%) | **34,803** | 15,103 |
| Lower tax rates for specific provinces or enacted by local authorities | **(187)** | (346) |
| Income not subject to tax | **(209)** | (135) |
| Expenses not deductible for tax | **983** | 7,339 |
| Tax losses not recognised during the year | **3,221** | 13,246 |
| Temporary differences not recognised during the year | **–** | 548 |
| Tax losses from previous periods utilised during the year | **(1,336)** | (9,589) |
| | **37,275** | 26,166 |

## 8. DIVIDENDS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Proposed final – RMB1.0 cents per ordinary share | **22,055** | – |

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

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

The calculation of the basic earnings per share amount is based on the consolidated profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 2,205,531,000 (31 December 2016: 1,793,678,450).

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

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

| | **Year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **101,677** | 34,975 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation* | **2,205,531,000** | 1,793,678,450 |
| Effect of dilution – weighted average number of ordinary shares**: | | |
| Share options | **–** | – |
| Number of ordinary shares used in the diluted earnings per share calculation | **2,205,531,000** | 1,793,678,450 |

* Not taking into account the 7,500,000 ordinary shares issued to Affluent Harvest Limited, a wholly-owned subsidiary of the Company.

** Since the exercise prices of these options exceed the average market price of ordinary shares during the year, there was no dilutive effect as of 31 December 2017 and 2016.

## 10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **19,889** | 18,307 |
| 1 to 2 months | **1,660** | 2,792 |
| 2 to 3 months | **1,134** | 1,030 |
| Over 3 months | **3,604** | 4,525 |
| | **26,287** | 26,654 |

Based on past experience, the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered full recoverable.

All of the receivables were neither past due nor impaired and mainly relate to corporate customers and receivables from banks for credit card settlement for whom there was no recent history of default.

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | | **31 December 2017** | 31 December 2016 |
|---|---|---|---|
| | *Notes* | ***RMB'000*** | *RMB'000* |
| Deposits and other receivables | | **84,457** | 110,081 |
| Prepaid expense | | **15,585** | 22,761 |
| Amounts due from companies owned by the controlling shareholder | *(i)* | **56,328** | 50,110 |
| Amount due from a director of major subsidiaries in Hong Kong | | **190** | 319 |
| Receivables from a non-controlling interest | *(ii)* | **81,191** | 85,825 |
| Prepayments | | **27,296** | 13,854 |
| | | **265,047** | 282,950 |
| Less: Non-current portion of receivables from a non-controlling interest | | | |
| – Loan to a non-controlling shareholder | *(ii)* | **(44,386)** | (47,498) |
| – Other long-term receivables | *(ii)* | **(24,241)** | (30,413) |
| Prepayments, deposits and other receivables | | **196,420** | 205,039 |

*(i)* Amounts due from companies owned by the controlling shareholder of the Company are unsecured, interest-free and repayable on demand.

*(ii)* In relation to the acquisition of POKKA HK, POKKA HK made a loan to Rosy Metro Investment Limited ("**Rosy Metro**"), a company wholly owned by the non-controlling shareholder of POKKA HK, of HK$40,000,000 at interest rate of Hibor+1.70 and HK$25,000,000 at interest rate of Hibor+2.45 and should be repaid in the next three years since 30 March 2015, the draw-down date. The outstanding principal and interest amounted to RMB54,334,000 and RMB3,369,000 respectively as at 31 December 2017 (RMB58,143,000 and RMB2,547,000 respectively as at 31 December 2016).

In addition, Rosy Metro should pay the subscription price of HK$40,000,000 through POKKA HK in five instalments according to the deferred payment schedule. HK$2,000,000, HK$4,000,000, HK$5,000,000, HK$6,000,000 and HK$23,000,000 shall be paid on 7 January 2016, 2017, 2018, 2019 and 2020, respectively. The outstanding balance amounted to RMB33,436,000 as at 31 December 2017 (31 December 2016: RMB35,780,000).

On 20 March 2015, Million Rank Limited ("**MRL**") declared a special dividend to its shareholders Bright Charm Development Limited ("**Bright Charm**") and Rosy Metro, at HK$2.125 per ordinary share, amounting to approximately HK$34,000,000. The dividend paid to Rosy Metro, amounting to HK$11,900,000 (equivalent to RMB9,948,000 and RMB10,645,000 as at 31 December 2017 and 31 December 2016), was offset against a loan to a non-controlling shareholder.

The above amounts due from the non-controlling interest were RMB81,191,000 in total as at 31 December 2017 (31 December 2016: RMB85,825,000) of which the current portion was RMB12,564,000 and the non-current portion was RMB68,627,000 (RMB7,914,000 and RMB77,911,000 as at 31 December 2016).

The loan to Rosy Metro and the deferred payment schedule mentioned above are both mortgaged by the 35% equity interest of MRL held by Rosy Metro. In the event that Rosy Metro may fail to fulfil these obligations, the Company and Bright Charm shall purchase or cause a third party to purchase the shares held by Rosy Metro.

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

## 12. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cash and bank balances | **304,656** | 219,737 |
| Time deposits with original maturity of less than three months | **152,478** | 33,653 |
| Time deposits with original maturity of over three months | **11,564** | 40,000 |
| | **468,698** | 293,390 |
| Less: Pledged time deposits for bank loans | | |
| – Current portion | **(151,910)** | (20,000) |
| – Non-current portion | **(11,564)** | (40,000) |
| Cash and cash equivalents | **305,224** | 233,390 |

Included RMB163,474,000 of time deposits which were pledged for bank loans borrowed by the Company.

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB ("RMB") amounted to RMB396,955,000 (2016: RMB254,862,000). The RMB is not freely convertible into other currencies, however, under Chinese Mainland'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 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 short-term deposits are deposited with creditworthy banks with no recent history of default.

## 13. TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|
| Within 3 months | **42,715** | 62,400 |
| 3 months to 1 year | **5,145** | 2,048 |
| Over 1 year | **1,980** | 2,393 |
| | **49,840** | 66,841 |

The trade payables are non-interest-bearing and normally settled within 30 days after receiving the invoice.

## 14. OTHER PAYABLES AND ACCRUALS

| | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|
| Payroll and welfare payables | **36,327** | 53,813 |
| Taxes other than corporate income tax | **1,972** | 4,177 |
| Other payables for construction in progress | **19,032** | 28,222 |
| Accruals and other payables | **61,122** | 73,292 |
| Payable related to the acquisition of a non-current financial asset | **–** | 105,906 |
| Current portion of the long term defer payment | **4,180** | 3,578 |
| Advances from customers | **3,635** | 8,384 |
| | **126,268** | 277,372 |

The balance of other payables and accruals is unsecured, interest-free and repayable on demand.

## 15. SHARE CAPITAL

**Shares**

| | **31 December 2017** *RMB'000* | 31 December 2016 *RMB'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.01 each | **10,000,000,000** | 10,000,000,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each | **2,213,031,000** | 2,213,031,000 |
| Equivalent to RMB'000 | **18,393** | 18,393 |

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

| | **Number of shares in issue** | **Share capital** *RMB'000* | **Share premium account** *RMB'000* | **Capital redemption reserve** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2016 | 1,475,354,000 | 12,035 | 472,827 | 27 | 484,889 |
| Share issued *(Note (a))* | 737,677,000 | 6,358 | 251,015 | – | 257,373 |
| At 31 December 2016 and 31 December 2017 | 2,213,031,000 | 18,393 | 723,842 | 27 | 742,262 |

*Note:*

(a) The Company announced to implement the rights issue ("**Rights Issue**") on the basis of one rights share for every two shares at the subscription price of HK$0.41 per rights share on 7 June 2016. The net proceeds raised from the Rights Issue will be used to pay the consideration of the acquisition of 9.82% of the issued share capital of JMU Limited (formerly known as WOWO Limited). On 18 July 2016, 737,677,000 rights shares have been issued, with net proceeds of HK$298,611,000 (equivalent to RMB257,373,000). Immediately after completion of the Rights Issue, the total issued and fully paid shares of the Company was 2,213,031,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW FOR 2017

According to the "World Economic Situation and Prospects in 2018" released by the United Nations at the New York headquarters, supported by the extensive recovery of developed economies, emerging markets and developing economies in 2017, the global economy has grown by 3%. China is the biggest contributor to the global economic growth, contributing one-third thereof. China's economy continues to grow steadily, and the catering industry continues to play an important role in expanding consumer demand and stimulating economic growth. The entire industry achieves stable, healthy and sustainable development. In 2017, the total revenue of catering services in PRC was RMB3,964.4 billion, an increase of 10.7% over the same period last year, which was 0.5 percentage point higher than the increase in retail sales of social consumer goods, representing 4.8% of GDP.

With the concept of continuous upgrading of consumption structure and the rise of a new generation of consumer groups, in 2017, Chinese catering market was booming and various business models coexisted. In addition to the strong dominance of Chinese dinner in catering industry, leisure casual dining has advanced rapidly, and international cuisine has gradually developed. The market competition evolved from the category of industry to brand competition, which fully demonstrated that the development of the catering industry has risen to a new stage. The internet sell-out exceeded RMB200 billion, the market share of the entire catering market continued to rise to 5%, and it was shifting from quantitative change to qualitative change. Meanwhile, a mixed catering style has emerged from the innovation explosion on the internet, consisting of traditional catering service and new retails products. The new era of intelligence of new catering has begun.

At present, the development mode of the catering industry is shifting from an extension-type expansion to an intensive-concentration type, from a scale-speed model to a quality-efficiency model, and gradually improving all aspects of operations management, brand building, model innovation, technology application, and modern supply chain. The traditional catering industry has gradually entered a new competitive landscape.

## FINANCIAL PERFORMANCE THROUGHOUT 2017

As of 31 December 2017, the Group achieved a significant breakthrough in its operating results under the competitive environment of the innovative restaurant industry. The Group's revenue for the year amounted to RMB1,912.0 million. Gross profit amounted to RMB1,395.3 million, with an increase in gross margin of 1.3% compared with 2016. Net profit amounted to RMB101.9 million, representing an increase of RMB67.7 million, or 197.7%, from RMB34.2 million in 2016. The profit attributable to shareholders for the year amounted to RMB101.7 million, an increase of RMB66.7 million from RMB35.0 million in last year.

## OPERATION REVIEW FOR 2017

As one of the largest multi-brands catering groups in China founded for 31 years, the Group always maintained a keen insight into the future development of the catering industry under the influence of the Internet, and is well versed in the pain points of the traditional catering companies and solutions. Advancing with the trends and the times, boldly transforming the underlying logic of business development, deepening the strategic reform, and reshaping the core competitiveness. The Group was strategically renamed as TANSH Global Food Group Co., Ltd in June 2017, which aims to upgrade into an integrated management platform of catering brands.

In 2017, the Group has achieved significant operation and management results by focusing on the iteration and empowerment of enterprise core competitive advantages – "Brand + Standard Supply chain". The Group maintains a strong net profit growth momentum. The Group's net profit exceeded RMB100.0 million for the first time in recent five years. The main initiatives in 2017 are as follows:

## YOUNG LEISURE BRANDS GROW SIGNIFICANTLY

In 2017, the Group concentrated on the incubation of young, fashion and leisure brands represented by "The Dining Room". As a result, the growth increased significantly and the profit model is more mature and firm. In addition to direct stores development, the Group also made an attempt on third-party franchise business through the main output model which is "Brand + Supply Chain" to lay a solid foundation for the rapid scale-up in the future. As of 31 December 2017, "the dining room" brand opened 4 new self operated stores, closed 3 stores due to the expiration of the lease and the total number of self-owned restaurants reached 23. Besides, the Group signed the first brand franchise agreement with a world-famous travel and catering group.

The revenue of all "The Dining Room" restaurants reached RMB264.3 million in 2017, representing an increase of 10.4% compared with 2016. The comparable store sales growth rate was 13.8%. In 2017, the operating profit of "the dining room" restaurants was RMB36.7 million, an increase of 108.7% (unaudited) compared with that of 2016.

In 2017, the Group accomplished the preparation and design as well as the systematic planning for supply chain of a famous Japanese coffee brand – DOUTOR. It is expected that the first store and flagship store will respectively be unveiled in Shanghai in mid-2018.

**Increased empowerment efficiency of standard supply chain**

In 2017, the Group collaborated with its strategic partner JMU Limited (NASDAQ: JMU) to restructure the competition and development chassis of Chinese food industry, deeply pursue research and development of standard supply chain products, and continuously optimize the menu system. At present, there are no more than 200 Stock Keeping Units ("SKUs") related to Chinese dishes, and the coverage rate of standard supply chain products in Chinese restaurants is over 95.0%. The streamlining and integration of product systems has brought about an increase in the efficiency of the supply chain system. Indirect costs such as warehousing and logistics have reduced by RMB14.1 million year-on-year, representing a decrease of 35.3% (unaudited).

The full introduction of the standard supply chain products has simultaneously achieved the efficiency optimization in restaurant's kitchen as well as the implementation of a comprehensive and refined control system, which has resulted in a substantial increase in the operating profits of the restaurants. As of 31 December 2017, the number of full-time kitchen staff in the Chinese cuisine brands in Chinese Mainland was reduced by 25.3%. The operating profit margin of Shanghai Min brand stores in Chinese Mainland reached 19.1%, increased by 4.5% (unaudited) compared to the same period in 2016.

**The new incremental business greatly increased**

Based on the solid chassis foundation of "Brand + Standard Supply Chain", in 2017, the Group is committed to the restaurant business extension and development of time and space, while carrying out in-depth cooperation with the Internet delivery platform and new retail channels respectively, to launch deep cooperation for two new incremental business of brand takeout and brand retail products. Among them, the total revenue of Chinese food brand takeaways in December 2017 reached RMB11.1 million in a singular month, showing a strong growth trend. The development of brand retail products such as "Jia Yan" and "Zhu Hao Mian" continued to be optimized, and the entering and layout of major new online and offline retail channels has been completed already.

**Headquarters management function optimized**

In 2017, the Group continued to deepen the flattening reform of the Group's headquarters, and endeavored to improve the functional efficiency and marketization of functions. The general and administrative expenses proportion of revenue constantly decreased from 8.2% in 2016 to 7.5% in 2017, a decrease of RMB21.4 million from the same period of 2016, of which, as of 31 December 2017, the number of functional staff in the headquarters decreased by 26.4%, and the corresponding manpower cost decreased by RMB14.1 million.

## STRATEGIC OUTLOOK FOR 2018

In 2018, consumer demand of the catering market will continue to upgrade, and will maintain a steady growth tendency. Internet intelligent technology, information-based big data, and new retail business forms will have a more profound impact on the traditional catering industry. Consequently the new competition pattern and competitiveness will change accordingly. In 2018, the Group will persistently pursue the corporate mission – "Food is the primary necessity. Let people enjoy the happiness of delicious food". The Group stands at the starting point of a enterprise development, adheres to the strategic transformation, make bold trials, strive in a proactive manner and scales new value heights. The management of the Group will execute the following strategies to lay out the second phase of the strategic transformation:

### Focus on the dominant brands to play a cluster effect

After the primary adjustment stage of the strategic transformation, based on the main output model "Brand + Standard Supply Chain", the Group will gradually step into the period of rapid development of the brands. Brands with broad market appeal, standard supply chain support as well as mature and firm profit model will be in the first development ladder and on their way of rapid development through multiple channels. Among those brands, the young fashion and leisure brand "The Dining Room" will be the development focus. The Group plans to open at least 12 stores in Hong Kong, Shanghai, Beijing and other first-tier cities in 2018. In 2018, the Group will take the advantage of the standard supply chain to boldly reform the business model of the brand restaurant "Shanghai Min". The Group will reshape the criteria of site selection, thus significantly increase the return on investment. The Group plans to upgrade four restaurants to new model. The first pilot store – Super Brand Mall Store, situated in Shanghai Putong Lujiazui is expected to open in June 2018. "DOUTOR" coffee, a well-known Asian coffee brand orginating from Japan, will open its first store in Mid-2018. After that, the Group will also collaborate with all parties for strategic resources and plan the layout of quick expansion with the advantages of "Brand + Standard Supply Chain".

In addition to independent development of the dominant brands, the Group will try the brand cluster output and share the commercial strategic resources. The store located in Century Link Tower, a plaza in Shanghai Pudong area, which will be launched in the second half of 2018, will be the first stop for the output of brand clusters. At the same time, the Group will continuously incubate or strategically adjust the brand matrix, and will keep an eye on and introduce excellent domestic and foreign brands or business models in order to further enhance the vitality and competitiveness of the brand integration platform.

### Widen the standard supply chain advantage to enhance the development base

In 2018, the Group will synergize with various strategic partners with their resources and make joint efforts internally and externally to achieve the value of technology research and development. The Group will deepen the research and development and application of standard supply chain and then promote the execution. The implementation plan will cover all the priority brands, whole category of dishes, systematic business process from raw materials to final goods, business-oriented restaurants, O2O brand takeaway and the all channels of consumer-oriented retail products.

The standard supply chain will be upgraded and put into service. In addition to optimized scale costs of system, the Group will persist to improve the operating quality and efficiency of the existing restaurants, which is beneficial to the construction of safety and quality management system in the aspect of food security, production operations, and supplier procurement management. While the technical personnel team, which is released due to the standard supply chain, will provide help for the future brand developments.

**Launch the third-party franchise business output development**

In 2018, the Group will utilize the existing core competitiveness of "Brand + Standard Supply Chain" to open up the development model of brand output and franchise business. Through in-depth strategic cooperation with world-famous travel and catering groups, the airport restaurants in first-tier cities at home and abroad will be laid out; at the same time, brand franchise business will be open to the third party with comprehensive resource capabilities in certain cities.

**A breakthrough in the incremental business**

In 2018, according to the business development plan and the situation, the Group will adjust its organizational structure, add the brand takeaway department and the brand retail commodity department, introduce the professional talent team with more advanced thinking, and in line with the characteristics of Internet brand takeaway and the new retail channels comprehensively upgrade the product research and development mode as well as business operation mode, so as to obtain the laddering business growth.

**Take the talent as the basis and encourage the functional staff marketization**

In 2018, the Group will focus on future development, optimize the talent structure, and actively introduce world-class management talents and technology R&D talents. Taking advantage of the platform where brand integration rapidly develops, the Group will continue to deepen the partnership incentive mechanism, encouraging innovation and entrepreneurship as well as talents to grow together with the Group so that it can strengthen the talents' sense of belonging and achievement. Based on the incentive mechanism of active partnership in stores, the Group actively encourage the functional departments to export service ability achieving marketization and efficiency, and provide talent teams to brand integration and development.

**Financial performance**

The Group's revenue in 2017 decreased by 4.4% from last year to RMB1,912.0 million. The Group's profit in 2017 amounted to RMB101.9 million, an increase of RMB67.7 million from RMB34.2 million in 2016. This was mainly due to the good operating conditions of leisure catering brands targeting or young generation and the significant increase in operating efficiency resulting from the standard supply chain reform and optimization in 2017.

## FINANCIAL REVIEW

In 2017, the revenue of the Group reached RMB1,912.0 million, representing a decrease of RMB89.0 million or 4.4% compared to RMB2,001.0 million in 2016. The gross profit of the Group amounted to RMB1,395.3 million, representing a decrease of approximately RMB38.6 million from RMB1,433.9 million of 2016. In 2017, the profit attributable to owners of the Group amounted to approximately RMB101.7 million, representing an increase of RMB66.7 million compared to RMB35.0 million in 2016.

In 2017, the Group operated a restaurant network of 67 "Shanghai Min" restaurants, 3 "Maison DeL'Hui" restaurants, 23 "the dining room" restaurants, 2 "Oreno" restaurants, 2 "Wolfgang Puck" restaurants, 1 "The BOATHOUSE" restaurant and 23 restaurants under POKKA HK brands, which covers some of the most affluent and fast-growing cities in Chinese Mainland (Note(ii)), Hong Kong and other regions. The following table sets forth the revenue and the number of the restaurants in operation, by geographical region and brand, in 2017 and 2016 respectively.

| | **As of 31 December** | | | |
|---|---|---|---|---|
| | **2017** | | 2016 | |
| | **Number of restaurants** *(Note (iii))* | **Revenue** ***RMB'000*** **(audited)** | Number of restaurants | Revenue *RMB'000* (audited) |
| The PRC (Chinese Mainland) *(Notes (ii))* | | | | |
| – Shanghai Min and Maison DeL'Hui | **63** | **1,143,130** | 66 | 1,185,978 |
| – The Dining Room | **16** | **146,208** | 16 | 110,010 |
| – Other brands *(Notes (vi))* | **4** | **60,605** | 4 | 60,697 |
| Hong Kong | | | | |
| – Shanghai Min | **7** | **142,774** | 7 | 160,526 |
| – The Dining Room | **7** | **118,136** | 6 | 128,719 |
| – POKKA HK *(Notes (iv))* | **22** | **263,002** | 26 | 296,271 |
| – Other brands *(Notes (vi))* | **1** | **2,887** | 1 | 22,017 |
| Macau *(Notes (v))* | | | | |
| – Shanghai Min | **–** | **–** | – | 4,273 |
| – The Dining Room | **–** | **–** | – | 811 |
| – POKKA HK | **1** | **11,775** | 1 | 13,493 |
| Total Revenue of restaurant operations *(Notes (i))* | **121** | **1,888,517** | 127 | 1,982,795 |
| Other Revenue | | **23,457** | | 18,206 |
| Total Revenue | | **1,911,974** | | 2,001,001 |

*Notes*

(i) Total revenue of restaurant operations includes revenue of restaurant operations, takeaway business and packaging products of restaurants.

(ii) The PRC (Chinese Mainland), which for the purpose of this announcement and for geographical reference only, excludes Hong Kong, Macau and Taiwan.

(iii) The number of restaurants excludes Mai Chi Ling licensed stores.

(iv) POKKA HK brand stores include 23 stores under 9 brands such as POKKA Café, Tonkichi in Hong Kong and Macau.

(v) Shanghai Min and the dining room in Macau were disposed at the end of February 2016, which were not included in the number of restaurants as of the end of the year, while revenue from January to February in 2016 was included in revenue for the year of 2016.

(vi) Other brands in the PRC include Oreno, Wolfgang Puck and The BOATHOUSE. Other brands in Hong Kong include Oreno.

**Revenue**

Revenue of the Group decreased by RMB89.0 million, or 4.4%, from RMB2,001.0 million in 2016 to RMB1,912.0 million in 2017. This decrease was due to the decrease in revenue for stores closed during the year.

**Total Revenue of restaurant operations**

Total revenue of restaurant operations decreased by RMB94.3 million, or 4.8% from RMB1,982.8 million in 2016 to RMB1,888.5 million in 2017, primarily reflecting:

- an increase of RMB61.7 million in revenue contributed by restaurants newly opened as at 31 December 2017;

- an increase of RMB27.9 million, representing an increase of 2.0%, in comparable restaurants sales in 2017 as compared with that of 2016 (excluded the POKKA HK brands);

- the relocation, adjustment, transfer, closing stores and decrease in restaurant revenue as at 31 December 2017 resulted in a decrease in overall revenue of RMB183.9 million.

**Other revenue**

Other revenue increased by RMB5.3 million, from RMB18.2 million in 2016 to RMB23.5 million in 2017. It was mainly contributed to the increase of the revenue of the food material sold to third party and outer cooking business.

**Cost of Sale**

The cost of sale decreased by RMB50.4 million, or 8.9%, from RMB567.1 million in 2016 to RMB516.7 million in 2017.

The cost of sales as a percentage of revenue decreased from 28.3% in 2016 to 27.0% in 2017, mainly reflected in: (i) a decrease in warehousing and logistics costs; (ii) improved cost efficiency in each working steps after the introduction of standard supply chain product; and (iii) innovation in product purchasing and marketing model.

**Other income**

Other income decreased by RMB7.4 million, from RMB46.7 million in 2016 to RMB39.3 million in 2017. This decrease was due to a decrease in government subsidy income of RMB17.7 million.

**Selling and distribution expenses**

Selling and distribution expenses decreased by RMB93.0 million, or 7.6%, from RMB1,218.0 million in 2016 to RMB1,125.1 million in 2017.

Labor costs decreased by RMB46.6 million, or 9.4%, from RMB494.1 million in 2016 to RMB447.5 million in 2017. As a percentage of the Group's revenue, labor costs decreased from 24.7% in 2016 to 23.4% in 2017. The decrease was mainly due to the improvement of the efficiency of the restaurant staff driven by the standard supply chain.

Rental costs relating to restaurants operations decreased by RMB13.0 million, or 3.6%, from RMB359.0 million for the year ended 2016 to RMB346.0 million for the year ended 2017. As a percentage of the Group's revenue, rental costs increased from 17.9% in 2016 to 18.1% in 2017.

Depreciation expenses relating to the restaurants operations decreased by RMB11.4 million, or 7.4%, from RMB153.8 million in 2016 to RMB142.4 million in 2017. As a percentage of the Group's revenue, depreciation expenses decreased from 7.7% in 2016 to 7.4% in 2017.

**Administrative expenses**

Benefited from adjustment of management structure, administrative expenses decreased by RMB21.4 million, or 13.0%, from RMB164.5 million in 2016 to RMB143.1 million in 2017, and as a percentage of revenue, administrative expenses decreased from 8.2% in 2016 to 7.5% in 2017.

**Other expenses**

Other expenses of RMB9.5 million in 2017 were mainly attributable to one-off write-off of store closure, the loss from disposal of assets in the normal course of business of RMB6.2 million.

**Income Tax Expense**

Income tax expenses increased by RMB11.1 million or 42.5%, from RMB26.2 million in 2016 to RMB37.3 million in 2017, which was mainly attributable to the year-on-year increase of profit before tax during 2017.

**Profit for the year**

As a result of the foregoing, the profit for the year increased by RMB67.7 million from RMB34.2 million in 2016 to RMB101.9 million in 2017. The net profit margin increased from 1.7% in 2016 to 5.3% in 2017.

**Liquidity, capital resources and cash flow**

The Group funded the liquidity and capital requirements primarily through bank loans and cash inflows from the operating activities.

As at 31 December 2017, the Group's total interest-bearing bank loans were RMB413.5 million. The gearing ratio was 25.4%, which decreased by 8.3% from 33.7% of gearing ratio as at 31 December 2016. Gearing ratio represents net debt dividend by adjusted capital plus net debt. Net debt includes interest bearing borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Group.

The Group had net cash inflows from operating activities of RMB226.9 million in 2017 (2016: RMB179.5 million). As at 31 December 2017, the Group had RMB305.2 million in cash and cash equivalents (31 December 2016: RMB233.4 million). The following table sets out certain information regarding the consolidated cash flows for the years ended 31 December 2017 and 2016:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(audited)** | (audited) |
| Net cash flows generated from operating activities | **226,884** | 179,467 |
| Net cash flows used in investing activities | **(140,842)** | (350,239) |
| Net cash flows (used in)/generated from financing activities | **(19,179)** | 237,904 |
| Net increase in cash and cash equivalents | **66,863** | 67,132 |
| Cash and cash equivalents at the beginning of the year | **233,390** | 169,024 |
| Effect of foreign exchange, net | **4,971** | (2,766) |
| Cash and cash equivalents at the end of the year | **305,224** | 233,390 |

**Operating activities**

Net cash inflow from operating activities increased by RMB47.4 million from RMB179.5 million as of 31 December 2016 to RMB226.9 million as of 31 December 2017, which was mainly due to the increase in profit before tax.

**Investing activities**

Net cash flow used in investing activities was RMB140.8 million as of 31 December 2017, compared with RMB350.2 million in 2016. The cash outflow from major investment activities was the final payment for acquiring equity interest of non-current financial assets, JMU Limited (formerly known as "WOWO Limited") in 2017.

**Financing activities**

Net cash flow generated from financing activities decreased from a cash inflow of RMB237.9 million as of 31 December 2016 to a cash outflow of RMB19.2 million as of 31 December 2017. This was mainly due to the increase in pledged time deposits of RMB103.5 million, the repayment of bank loans amounted to RMB205.9 million, the addition of bank loans amounted to RMB280.1 million, the payment of interest amounted to RMB 17.9 million and the proceeds from the issue of shares amounted to RMB 28.0 million.

**Foreign currency exposure**

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities, investment activities and overseas financing income or expenses (when revenue or expenses from investment activities and overseas financing are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase for the twelve-month periods ended 31 December 2017 and 31 December 2016 are denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure to foreign exchange risk.

**Contingent liabilities**

There were no significant contingent liabilities for the Group as at 31 December 2017 and 31 December 2016.

## Operating lease arrangements

### *As lessee*

The Group leases certain of its offices and restaurant properties under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from 3 to 12 years.

At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(audited)** | (audited) |
| Within one year | **249,504** | 278,423 |
| In the second to fifth years, inclusive | **649,867** | 795,232 |
| After five years | **158,791** | 269,748 |
| | **1,058,162** | 1,343,403 |

## Capital commitment

Capital commitments were approximately RMB7.4 million and RMB29.5 million as at 31 December 2017 and 31 December 2016 respectively.

## Human resources and remuneration policies

As of 31 December 2017, the Group employed approximately 2,957 people in Chinese Mainland, Hong Kong and Macau, including 2,648 employees in restaurants and 309 employee in functional departments (3,933 employees in 2016, a year-on-year decrease of 24.8%).

In 2017, the Group optimized the employment structure of its restaurants. Under the premise of guaranteeing quality services and product quality, the Group has formed a three-dimensional labor structure for full-time employees, hourly employees and trainees. The Group also entered into long-term cooperation plans with a number of domestic institutions.

In addition, the Group has formulated a number of incentive assessment policies for employees in restaurants and functional departments, so as to increase the overall income of employees and to achieve the sharing of benefits between the Company and employees. This also resulted in a significant increase in restaurant operating efficiency and increase in the Group's performance.

## SUBSEQUENT EVENTS

Since 31 December 2017 to the date of this announcement, there was a possible disposal in relation to the 65% of equity interests of Million Rank Limited. For details please refer to the announcement issued at 13 February 2018. Apart from the above matters, there is no other event that has a significant impact on the Company.

## DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.01 per share (approximately HK$0.012 per share) for the year ended 31 December 2017, paid out of the Company's share premium account, and is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting ("**AGM**"), which will be held on 29 June 2018. The 2017 final dividend will be declared in Renminbi and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the middle rate of exchange between RMB and HKD as quoted by The People's Bank of China in the previous week before the date of the final dividend declaration.

## CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements of the shareholders to attend the AGM to be held on 29 June 2018, the register of members of the Company will be closed from 26 June 2018 to 29 June 2018, both days inclusive, during which no transfer of shares will be registered. In order to be eligible to attend the AGM, all share transfers, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's share registrar in Hong Kong (the "**Hong Kong Share Registrar**"), Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 25 June 2018.

If the proposal of 2017 final dividend is approved by shareholders at the forthcoming AGM, the register of members of the Company will be closed from 6 July 2018 to 10 July 2018, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed 2017 final dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration before 4:30 p.m. on 5 July 2018. The 2017 final dividend, if approved by the Company's shareholders at the forthcoming AGM, will be paid on or about 19 July 2018 to those shareholders whose names appear on the register of members of the Company on 10 July 2018.

## CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") of The Stock Exchange of Hong Kong Limited as its own code of corporate governance. Save as disclosed in this announcement, the Company has complied with all the code provisions as set out in CG Code for the year ended 31 December 2017.

The CG Code provision A.2.1 stipulates that the roles of the chairman and the chief executive officer position should be separated and should not be performed by the same individual. Currently, due to changes of the management personnel of the Company, both the roles of chairman and chief executive officer are performed by Ms. Wang Huimin. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high-quality individuals who meet regularly to discuss issues relating to the operations of the Company. The Board has full confidence in Ms. Wang Huimin and believes that having Ms. Wang Huimin performing the roles of the chairman and the chief executive officer enables the Company to make and implement decisions promptly and efficiently which is beneficial to the Company as a whole. The Company will seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of the chief executive officer in the future.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 December 2017.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company or any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company for the year ended 31 December 2017.

## REVIEW OF ANNUAL RESULTS

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the consolidated financial statements for the year ended 31 December 2017.

The Audit Committee of the Company has also reviewed the Company's consolidated financial statements for the year ended 31 December 2017. The Audit Committee is of the view that these financial statements have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory provisions, and sufficient disclosures have already been made.

## SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Company's financial results for the year ended 31 December 2017 as set out in this preliminary announcement have been audited by the Company's independent auditor, Ernst & Young ("**EY**"), to be consistent with the amounts set out in the Company's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by EY on this preliminary announcement.

## PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND THE 2017 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tanshglobal.com), and the Company's 2017 Annual Report which contains all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
**TANSH Global Food Group Co., Ltd**
**WANG Huimin**
*Chairlady*

Shanghai, China, 27 March 2018

*As at the date of this announcement, the executive directors of the Company are Ms. WANG Huimin and Ms. ZHU Xiaoxia; the non-executive directors of the Company are Ms. WANG Huili, Mr. WENG Xiangwei and Ms. WU Wen; and the independent non-executive directors of the Company are Dr. WU Chun Wah, Mr. LUI Wai Ming and Mr. LIN Lijun.*