TAO HEUNG HOLDINGS LIMITED
稻香控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 573)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

	For the year ended 31 December		Increase/ (decrease) in
	2019	2018	**%**
	(HK$'000)	*(HK$'000)*	
Revenue	**3,905,708**	4,138,788	(5.6%)
Profit after tax	**135,804**	108,751	24.9%
Profit attributable to owners of the parent	**124,968**	116,390	7.4%
	HK cents	*HK cents*	
Basic earnings per share	**12.29**	11.45	7.3%
Proposed final dividend per share	**3.5**	6.0	(41.7%)
No. of restaurants and bakery outlets			
at 31 December	**137**	146	
at announcement date	**136**	145	

* *For identification purpose only*

CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Tao Heung Holdings Limited (the "**Company**") together with its subsidiaries ("**Tao Heung**" or the "**Group**"), I hereby present the annual results of the Group for the year ended 31 December 2019.

Over the past 12 months, the food and beverage industry has faced a particularly challenging period as macroeconomic uncertainties, social unrest and the outbreak of the COVID-19 in the beginning of 2020 have impacted on both Hong Kong and Mainland China, leading to weak consumption sentiment. Though Tao Heung was placed under considerable pressure, we nonetheless were able to lessen the impact of such issues by leveraging our flexible and effective business strategies. Furthermore, we continued to offer a wide range of products that catered for different demographics, which has always been one of our core strengths. Underpinned by our long-term "MISS" business plan, we will continue to grasp opportunities and adjust strategies when necessary to achieve continuous growth, and just as importantly, diversify income streams to cope with volatile conditions.

LOOKING AT THE LONG HAUL

Since 2016, we have been observing our "**MISS**" (Marketing, Innovation, Service and Succession) business plan, which is the Group's blueprint for sustaining its competitive edge and for ensuring that efforts are upheld in strengthening its foothold in the industry while at the same time maintaining responsive to market changes.

On the **Marketing** front, we have continued to consolidate as well as launch seasonal promotions to maintain our business performance in Hong Kong. The promotions such as "Half-price dim sum" have been able to generate steady income for the Group, while seasonal promotions like "Alaskan King Crab" have performed encouragingly on the back of solid customer uptake. Furthermore by leveraging a variety of effective channels such as collaborations with supermarkets and OEM related activities, we have been able to achieve the benefits of extending our reach to customers in Hong Kong. As for Mainland China, we have broadened our customer base by capitalising on our packaged and chilled food products. Moreover, through expanded geographical coverage via both online and offline channels. Moreover, by offering a greater range of food products options, we have been able to grow the wholesale operation.

With respect to **Innovation**, we have been making every effort in ensuring that we are at the forefront of relevant technology deployments that further strengthen our businesses. Apart from adopting mobile payment platforms such as Alipay and WeChat Pay, we have started introducing mobile ordering systems across our restaurant networks to raise efficiency. We have also partnered with Tmall.com and JD.com to help bolster our e-commerce exposure. Through these online distributors, our products are now able to reach customers across vast regions of Mainland China. What is more, via ties with Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼), we are able to provide takeaway services that align with the demands of today's health conscious customers and which has been further heightened with the outbreak of the COVID-19. As we also view automation as essential in maintaining the relevance of our business models, we will continue to employ technologies that ensure our food processing and packaging capabilities are optimised, production costs are well managed, and products are of the highest quality so that not only the Group stands to benefit, but also all of our customers are likewise beneficiaries.

As food and **Service** are two sides of the same coin, both essential for attracting and retaining customers, we have continued to invest in the latter in the form of training, and by offering performance-related bonuses/remunerations. Furthermore, we have employed "mystery customers" to examine the service of frontline staff and the general performance of our restaurants. Through their feedback, we are able to modify training courses, while conversely, we are able to update inspection criteria to ensure their effectiveness and relevance. Still a further means of advancing service involves the use of focus groups, which allow us to gauge changing preferences and emerging trends as well as understand consumers' expectations. On the whole, all of these measures have proved effective, and our services have continued to improve. Going forward, we will further employ such measures to enhance dining experiences and to motivate and boost the loyalty and performance of our staff. A testament to the success of the latter, our chef, Mr. Chung King Nam, was presented with the Best Name Award and Best Presentation Award from Champion of Gourmet Master Chef 2019, honours that everyone at Tao Heung are delighted and proud of.

Preparing for the future is also of paramount importance to the Group, which is why **Succession** is regarded as a cornerstone of our long-term business plan. This entails the decentralisation of management as it pertains to daily activities, and the empowerment of colleagues so that they can have direct input in operational performance. It also involves providing appropriate incentives that reward them for their commitment, while just as importantly, strengthen their loyalty to the Group, leading to the retention of skilled and experienced staff.

Yet other efforts to advance our succession goal involves the organising of exchange programmes where selected Hong Kong staff are able to meet their Mainland China counterparts to gain insights into local practices, including the duties integration, thus allowing frontline staff to become more flexible, leading ultimately to higher efficiency and quality of service. Such programmes also result in the interchange of experiences and expertise that benefits both the Hong Kong and Mainland China operations.

Besides protecting the future of the Group, we are mindful as well of the need to protect the future of our industry. Hence the reason why we established the Tao Miao Institute ("稻苗學院") jointly with the Vocational Training Council ("**VTC**") back in 2012. Through this collaborative effort, we are able to preserve traditional Chinese cuisine culture and techniques for future generations. We will further examine opportunities that align with this goal, as this also constitutes part of our corporate culture. Clear affirmation of the effectiveness of such efforts include the earning of the plaudit, "Hong Kong Star Brand Award 2019 – Enterprise", thus further elevating the stature of Tao Heung in the Chinese culinary world.

While **MISS** is synonymous with Tao Heung's long-term plan, we are no less committed to fulfilling our corporate social responsibilities. Towards this commitment, we have in recent years introduced the concept of the "energy saving kitchen" as the use of cooking equipments in more energy efficient and environmentally friendly manner. In recognition of our environmental efforts, we were presented with the Joint Energy Saving Award, part of CLP Smart Energy Award 2019.

APPRECIATION

In the future, we will promote the Group's development by focusing on our main strength: Chinese cuisine. This will include examining relevant market trends and industry changes, and prudently capitalising on advances that spurs our advancement. At the same time, we will contribute to the progress of industry and society, as expected of a responsible corporate citizen. Correspondingly, we will explore opportunities to co-operate with government agencies in areas of industry and social development, as well as take initiatives that encourage the mutual progress of the Group and the communities in which we serve.

Chung Wai Ping
Chairman

Hong Kong
24 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2019. During the past year, the Group, as with its peers, faced a slump in the F&B sector. Nonetheless, the Group was able to lessen its impact by leveraging its strong market position, as well as its renowned brands, which many consumers associate with value for money cuisine. Consequently, it has been able to achieve modest growth in profit in both Hong Kong and Mainland China. Such an achievement also highlights the successful efforts of the Group in controlling costs and enhancing operations, as well as its ability to adapt to changing operating conditions and consumption trends.

Financial Results

As at the year ended 31 December 2019, the Group recorded total revenue of HK$3,905.7 million (2018: HK$4,138.8 million), representing a decline of 5.6% year-on-year due in part to the renovation of several restaurants and the closure of several restaurants upon lease expiry during the year. Profit attributable to owners of the parent climbed to HK$125.0 million, up 7.4% year-on-year from HK$116.4 million in 2018, which was attributable to the effective consolidation of stores and the introduction of menus targeted towards a younger demographic. Hong Kong has continued to be the principal revenue contributor of the Group, accounting for 61.1% (2018: 62.5%) versus 38.9% (2018: 37.5%) for Mainland China.

The Board has proposed a final dividend of HK3.5 cents (2018: HK6.0 cents) per share for the year ended 31 December 2019. Together with an interim dividend of HK6.0 cents per share already paid (2018: HK5.5 cents), the total dividend will be HK9.5 cents (2018: HK11.5 cents), which represents a dividend payout ratio of 77.3% (2018: 100.4%).

Hong Kong Operations

The Hong Kong operations contributed revenue of HK$2,386.6 million (2018: HK$2,587.8 million) during the review year. Earnings before interest, tax, depreciation and amortisation (EBITDA) totalled HK$160.5 million (2018: HK$205.2 million), with profit attributable to owners of the parent at HK$61.2 million (2018: HK$92.2 million).

The Hong Kong operations faced challenges in 2019, specifically the social unrest during the second half year. Despite of this, Tao Heung employed several marketing strategies to stimulate consumptions. This included the "half-price dim sum" promotions which proved successful in attracting foot traffic to its establishments. Also the signature promotion of "Alaskan King Crab" has been overwhelming by our customers. Furthermore, updates were made to menus to both attract young customers while also entice existing customers. In view of the increasing tech savviness of customers, the Group has been gradually rolling out mobile ordering systems. Among the benefits of which include higher efficiency in receiving and processing orders leading to quicker turnaround times, hence adding to the dining experience. Furthermore, the Group is able to better manage labour costs and workflow, resulting in greater efficiency. Still another means of raising efficiency has been through duties integration. As conducted in its Mainland China restaurants, and is being implemented in stages in Hong Kong, such effort involves empowering frontline staff so that they are able to complete a variety of tasks following relevant training. The benefits are manifold, and include enhancing the skillset and job satisfaction of colleagues, while customers are also afforded more prompt and comprehensive services. Owing to these and other efforts, same store sales rose by 1.0% and average spend per head increased by 1.7% during the review year.

As at 31 December 2019, Tao Heung maintained a strong network of restaurants in Hong Kong, comprising 49 restaurants (2018: 64 restaurants, including 5 operated by the associates). The adjustment of the Hong Kong network highlights the Group's efforts to rightsize and consolidate its restaurants, which have achieved the desired goal of reducing costs. While streamlining operations, the Group has maintained its focus on reinforcing its stature as a Chinese culinary group, hence it will continue to maintain and upkeep its self-owned brands of Chinese restaurants.

With respect to the Tai Cheong bakery operation, its revitalised image has helped to consolidate the bakery's premium stature both at home and abroad. In respect of the former, Tai Cheong bakery's standing has been further strengthened with prime openings at the new shopping mall V Walk and The Peak Tower, with the bakery network in Hong Kong now comprising 17 (2018: 16) shops as at the review year. Tai Cheong bakery also has a presence in Taiwan and Beijing by way of franchises operated in partnership with members of the SSP Group plc ("**SSP**"). Elsewhere, its presence in Singapore continues to deliver favourable results via four outlets found in strategic locations across the country.

Mainland China Operations

Revenue totalling HK$1,519.1 million (2018: HK$1,551.0 million) was generated by the Mainland China operations as at the close of the review year, with EBITDA at HK$232.9 million (2018: HK$184.3 million). Profit attributable to owners was HK$63.8 million versus HK$24.2 million in 2018. If excluding the compensation received for the closure of chicken farms of HK$51.8 million, EBITDA was HK$181.1 million (2018: HK$184.3 million). Profit attributable to owners was HK$27.5 million (2018: HK$24.2 million), excluding the share of above mentioned compensation of HK$36.3 million.

Faced with rising economic headwinds and weakening consumption sentiment, the Mainland China operation experienced a decline in same store sales of 1.8% as well as a weakening in average spend per head. However, the Group has employed marketing strategies such as "half-price dim sum" in all restaurants and has successfully increased the traffic by 6.9%. To combat softness in consumption, the Group has sought to both control costs and raise efficiency. With regard to the former, and particularly the rise in cost of key ingredients such as pork, it has been purchasing items in bulk when prices are reasonably low for later use. To further address cost pertaining to labour while concurrently raise efficiency, the Group has been providing training so that staff can take on a number of tasks, which, combined with the adoption of a mobile ordering system by its entire restaurant network, has enabled higher efficiency to be achieved in all relevant areas of operation and enhanced customer services. Also, with a view to enhancing customer service, particularly given current health concerns, the Group has introduced takeaway services in conjunction with such platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼).

With reference to the three integrated complexes of which one is the combination of Chinese restaurants, self-owned supermarket, indoor playground, museum and shops and two with Chinese restaurants and self-owned supermarket, they have continued to deliver encouraging results by appealing to customers on multiple levels. As for the wholesale business, it remains an important backbone for supporting the Group's brands in their online penetration, particularly for proprietary packaged food products. Through partnerships with popular online distributors including T.mall.com and JD.com, such products have been able to reach customers from across the country, hence achieving encouraging online sales growth of 20% during the review period. The Group is no less committed to delivering omnichannel experiences, which is why supermarkets chains are also leveraged in delivering its packaged foods to a wider spectrum of customers. At the same time, sales and marketing efforts have been made to strengthen revenue contributions from the wholesale operation.

As at 31 December 2019, Tao Heung had a total of 46 (2018: 44) restaurants in operation in Mainland China. In addition, the Group had 25 (2018: 27) Bakerz 180 outlets in the country. The two networks generated combined revenue of HK$1,263.5 million during the review year. Even though the overall number of restaurants has declined, the Group's Tao Heung private label products have been able to broaden the Group's reach by way of e-commerce and collaborations with distributors and supermarkets.

Impact of Coronavirus

In early 2020, in response to the public health risks associated with an outbreak of COVID-19 in Wuhan, China, all of our restaurants in China have been temporarily closed since late January 2020. While restaurants in Guangdong Province are planned to reopen gradually from early March, four restaurants in Wuhan regions will remain close until further notice from the local government. In the meantime, we have temporarily closed four restaurants in Hong Kong while adjusted the operating hours of some of our restaurants according to latest demand. We will continue to closely monitor the development of the circumstances and work diligently to sustain in this difficult time.

Financial Resources and Liquidity

As at 31 December 2019, the Group's total assets were approximately HK$3,061.3 million (2018: approximately HK$2,391.3 million) while the total equity was approximately HK$1,637.3 million (2018: approximately HK$1,686.0 million).

As at 31 December 2019, the Group had cash and cash equivalents of approximately HK$620.9 million. After deducting total interest-bearing bank borrowings of approximately HK$153.1 million, the Group had a net cash surplus position of approximately HK$467.8 million.

As at 31 December 2019, the Group's gearing ratio (defined as total interest-bearing bank borrowings divided by total equity attributable to owners of the parent) was 9.5% (2018: 9.0%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2019 amounted to approximately HK$150.8 million and capital commitments as at 31 December 2019 amounted to approximately HK$30.0 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 2019, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$26.9 million (2018: approximately HK$18.7 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2019 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 2019, the Group had 6,741 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 2019, there are 13,650,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Pledge of Assets

As at 31 December 2019, the Group pledged its bank deposits of approximately HK$13.9 million, right-of-use assets of approximately HK$33.4 million and buildings of approximately HK$16.0 million and investment properties of approximately HK$20.5 million to secure the banking facilities granted to the Group.

Prospects

While we are pleased with our 2019 achievements, the beginning of 2020 has proven to be challenging for everyone as a result of an outbreak of a respiratory illness caused by the COVID-19. Our thoughts remain with the people of Wuhan and greater Hubei Province, the medical personnel on the front lines and the rest of Mainland China, as great steps are taken, in the all-out effort to contain the spread of virus. We expect the repercussions of this health crisis in Hong Kong and Mainland China will have a material impact on the first quarter of 2020. Given the dynamic nature of the circumstances, it is difficult to predict the magnitude and materiality of the impact of the COVID-19 outbreak in future reporting periods for 2020.

Despite an increasingly challenging macro economy, the Group's ongoing development efforts in Hong Kong and Mainland China have begun to bear fruit. The combination of marketing campaigns and business consolidation consistent with the Group's "MISS" long-term plan have proved effective at creating a more appealing and streamlined operation, respectively. Though tremendous headwinds remain, the management is cautiously optimistic about the Group's immediate future, and will persist in invigorating its Hong Kong and Mainland China operations so that even higher quality food and services are delivered to customers. In line with this goal, the management will further adjust the Group's business model so that it can readily and seamlessly adapt to market changes.

In Hong Kong, the Group will bolster its existing brand portfolio while holding true to its "value for money" maxim. Correspondingly, the Group will continue to hone and enhance its food and services, delivering an effective mix of good value and quality cuisine complemented by efficient services that both enhances customers' dining experiences and allows the Group to efficiently employ its workforce. Given the current operational challenges that are affecting the industry, and which is also impacting the Group, the management will be employing flexible operating hours to ensure that its resources are not squandered.

Concerning the Mainland China operation, the Group's successful wholesale business has, via online distribution platforms, enabled it to buildout its national presence. Collaborations with supermarkets have further provided Tao Heung with offline channels to boost sales. To ensure that such positive trends continue, and profit margins improve, the Group will effectively utilise its Dongguan logistics centre. As the capacity of the centre has not been fully utilised, the management has been able to initiate flexible operating hours since the COVID-19 outbreak. Consequently, the output of packaged food has been doubled, hence, the Group has continued to benefit from diversified revenue streams.

As Tao Heung maintains its commitment to the geographical expansion of proprietary brands, it will not rely solely on the wholesale operation, which has been supported by both online and offline platforms, but also through partnerships as exemplified by Tai Cheong's presence in Singapore. While both are viable options, still more avenues will be explored as the Group expands their footprints in the region. Concurrently, Tao Heung will leverage the benefits of strategies employed over the past years and its competitive edges to form the foundation for business development and the diversification of revenue streams, resulting ultimately in greater value creation for the Group's shareholders.

RESULTS

The board of directors (the "**Board**") of Tao Heung Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively "**Tao Heung**" or the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019**	2018
		HK$'000	*HK$'000*
REVENUE	*4*	**3,905,708**	4,138,788
Cost of sales		**(3,409,940)**	(3,677,269)
Gross profit		**495,768**	461,519
Other income and gains, net	*4*	**106,748**	33,413
Selling and distribution expenses		**(105,078)**	(111,871)
Administrative expenses		**(198,253)**	(199,188)
Other expenses		**(66,486)**	(32,409)
Finance costs	*5*	**(42,977)**	(3,100)
Share of profits of associates, net		**666**	648
PROFIT BEFORE TAX	*6*	**190,388**	149,012
Income tax expense	*7*	**(54,584)**	(40,261)
PROFIT FOR THE YEAR		**135,804**	108,751
Attributable to:			
Owners of the parent		**124,968**	116,390
Non-controlling interests		**10,836**	(7,639)
		135,804	108,751
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	*9*	**12.29**	11.45
– Diluted (HK cents)	*9*	**12.29**	11.45

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**135,804**	108,751
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(13,420)**	(48,903)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**122,384**	59,848
Attributable to:		
Owners of the parent	**111,942**	69,032
Non-controlling interests	**10,442**	(9,184)
	122,384	59,848

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**2019**	2018
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**897,786**	1,031,396
Prepaid land lease payments		**–**	86,543
Right-of-use assets		**883,295**	–
Investment properties		**29,400**	29,400
Goodwill		**38,677**	38,883
Other intangible asset		**–**	884
Investments in associates		**5,084**	11,964
Deferred tax assets		**86,549**	100,221
Rental deposits		**89,374**	97,495
Deposits for purchases of items of property, plant and equipment		**31,910**	82,884
Total non-current assets		**2,062,075**	1,479,670
CURRENT ASSETS			
Inventories		**170,867**	149,745
Biological assets		**–**	235
Trade receivables	*10*	**43,507**	42,800
Prepayments, deposits and other receivables		**144,259**	167,244
Tax recoverable		**1,690**	6,529
Pledged deposits		**13,875**	13,653
Restricted cash		**4,100**	–
Cash and cash equivalents		**620,940**	531,416
Total current assets		**999,238**	911,622
CURRENT LIABILITIES			
Trade payables	*11*	**119,872**	135,177
Other payables and accruals		**247,192**	296,443
Interest-bearing bank borrowings		**153,100**	149,667
Finance lease payable		**–**	176
Lease liabilities		**246,641**	–
Tax payable		**20,118**	16,932
Total current liabilities		**786,923**	598,395
NET CURRENT ASSETS		**212,315**	313,227
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,274,390**	1,792,897

	Notes	**2019**	2018
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**11,741**	82,400
Finance lease payables		**–**	397
Lease liabilities		**606,408**	–
Due to non-controlling shareholders of subsidiaries		**–**	7,581
Deferred tax liabilities		**18,950**	16,479
Total non-current liabilities		**637,099**	106,857
Net assets		**1,637,291**	1,686,040
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,661**	101,661
Reserves		**1,503,338**	1,565,445
		1,604,999	1,667,106
Non-controlling interests		**32,292**	18,934
Total equity		**1,637,291**	1,686,040

Notes:

1. BASIS OF PREPARATION

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

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 16 *Leases*

HKFRS 16 replaces HKAS 17 *Leases* ("**HKAS 17**"), HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* ("**HK(IFRIC)-Int 4**"), 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for certain of its office premises, restaurants and bakery properties and equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately in the statement of financial position.

The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease asset recognised previously under finance lease of HK$557,000 that was reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

- Relying on the entity's assessment of whether leases are onerous immediately before 1 January 2019 as an alternative to performing an impairment review.

As a lessee – Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	1,014,339
Decrease in property, plant and equipment	(72,902)
Decrease in prepaid land lease payments	(88,754)
Decrease in prepayments, deposits and other receivables	(16,456)
Increase in deferred tax assets	10,058
Increase in total assets	846,285
Liabilities	
Increase in lease liabilities	981,102
Decrease in other payables and accruals	(81,675)
Decrease in finance lease payable	(573)
Increase in total liabilities	898,854
Equity	
Decrease in retained earnings	(52,055)
Decrease in non-controlling interests	(514)
Decrease in total equity	(52,569)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	**1,182,866**
Weighted average incremental borrowing rate as at 1 January 2019	4.22%
Discounted operating lease commitments as at 1 January 2019	980,529
Add: Finance lease liabilities recognised as at 31 December 2018	573
Lease liabilities as at 1 January 2019	**981,102**

3. OPERATING SEGMENT INFORMATION

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

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2019 and 2018, and certain non-current asset information as at 31 December 2019 and 2018, by geographic area.

(a) Revenue from external customers

	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**2,386,557**	2,587,803
Mainland China	**1,519,151**	1,550,985
	3,905,708	4,138,788

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

(b) Non-current assets

	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**816,246**	446,223
Mainland China	**1,069,906**	835,731
	1,886,152	1,281,954

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

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2019	2018
	HK$'000	*HK$'000*
Restaurant and bakery operations	**3,558,810**	3,847,980
Sale of food and other items	**218,518**	182,135
Poultry farm operations	**128,380**	108,673
	3,905,708	4,138,788

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

	2019	2018
	HK$'000	*HK$'000*
Bank interest income	**11,588**	8,725
Government grants	**55,138**	6,537
Gross rental income	**2,224**	3,717
Sponsorship income	**2,023**	2,297
Fair value gains on investment properties	**–**	2,600
Gain on disposal of items of property, plant and equipment, net	**2,447**	100
Gain on disposal of associates	**208**	–
Foreign exchange differences, net	**–**	2,269
Compensation of loss from the former non-controlling shareholder of a subsidiary	**22,881**	–
Management fee income	**1,449**	1,319
Others	**8,790**	5,849
	106,748	33,413

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	HK$'000	*HK$'000*
Interest on bank loans	**3,386**	3,079
Interest on a finance lease	**–**	21
Interest on lease liabilities	**39,591**	–
	42,977	3,100

6. PROFIT BEFORE TAX

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

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories sold	**1,296,177**	1,365,212
Depreciation of right-of-use assets	**302,659**	–
Depreciation of property, plant and equipment	**194,860**	238,680
Amortisation of land lease payments	**–**	2,277
Amortisation of other intangible asset	**40**	83
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	**1,042,861**	1,122,021
Retirement benefits scheme contributions (defined contribution schemes)	**73,263**	80,055
Equity-settled share option expense	**–**	1,870
	1,116,124	1,203,946
Impairment of trade receivables, net	**1,231**	2,146
Impairment of items of property, plant and equipment	**28,076**	22,911
Impairment of right-of-use assets	**31,113**	–
Impairment of other intangible asset	**850**	–
Write-off of items of property, plant and equipment	**1,116**	3,246
Changes in fair value less cost to sell of biological assets	**–**	16

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/19. The first HK$2,000,000 (2018: Nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019	2018
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**14,813**	23,707
Overprovision in prior years	**(445)**	(660)
Current – Mainland China	**14,457**	14,869
Deferred	**25,759**	2,345
Total tax charge for the year	**54,584**	40,261

8. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Interim – HK6.00 cents (2018: HK5.50 cents) per ordinary share	**60,997**	55,914
Proposed final – HK3.50 cents (2018: HK6.00 cents) per ordinary share	**35,581**	60,997
	96,578	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.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (2018: 1,016,611,000) in issue during the year.

For the year ended 31 December 2019 and 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.

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

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**124,968**	116,390

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**1,016,611,000**	1,016,611,000

10. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**46,884**	44,946
Impairment	**(3,377)**	(2,146)
	43,507	42,800

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group also grants a credit period between 30 to 90 days to certain customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables, net of allowance for expected credit losses as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**31,403**	30,472
1 to 3 months	**11,658**	6,180
Over 3 months	**446**	6,148
	43,507	42,800

11. 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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**106,037**	124,546
1 to 2 months	**6,362**	5,964
2 to 3 months	**704**	1,137
Over 3 months	**6,769**	3,530
	119,872	135,177

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

OTHER INFORMATION

Dividend

In acknowledging continuous support from the Company's shareholders, the Directors have declared the payment of a final dividend of HK3.50 cents per ordinary share in respect of the year ended 31 December 2019, payable on 9 June 2020 to shareholders whose names appear on the register of member of the Company on 25 May 2020.

Closure of Register of Members

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

(i) From Friday, 15 May 2020 to Tuesday, 19 May 2020, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2019 Annual General Meeting. In order to be eligible to attend and vote at the 2019 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 14 May 2020; and

(ii) On Tuesday, 26 May 2020, 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 Monday, 25 May 2020.

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

Corporate Governance

During the year ended 31 December 2019, the Company has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and complied with all applicable code provisions under the Code, save and except for the deviation from the code provision A.2.1 of the Code. Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("**CEO**") should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision A.2.1, i.e., the roles of the Chairman and CEO have not been separated. Considering that Mr. Chung Wai Ping has been operating and managing the Group since its incorporation, the Board believes that it is in the best interest of the Group to have Mr. Chung Wai Ping taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from code provision A.2.1 is appropriate in such circumstance.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors have complied with the required standards as set forth in the Model Code throughout the year ended 31 December 2019.

Purchase, Sale or Redemption of Listed Securities

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

Audit Committee

The Company established the Audit Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes, the internal control systems and licensing issues of the Group. Currently, Mr. Mak Hing Keung, Thomas and Professor Chan Chi Fai, Andrew, all being Independent Non-executive Directors and Mr. Chan Yue Kwong, Michael, a Non-executive Director, are members of the Audit Committee with Mr. Mak Hing Keung, Thomas, being the chairman.

The Company's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee, which opines that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made. The Audit Committee of the Company has met the external auditors of the Company, Ernst & Young, and reviewed the consolidated financial statements of the Group for the year ended 31 December 2019.

Annual General Meeting

The 2019 Annual General Meeting of the Company will be held on Tuesday, 19 May 2020. Notice of the 2019 Annual General Meeting will be published and issued to shareholders in due course.

Disclosure of information on the Stock Exchange's website

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

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

Hong Kong, 24 March 2020

As at the date of this announcement, the board of directors of the Company comprised 9 directors, of which four are executive directors, namely Mr. Chung Wai Ping, Mr. Wong Ka Wing, Mr. Ho Yuen Wah and Mr. Chung Chun Fung; two are non-executive directors, namely Mr. Fong Siu Kwong and Mr. Chan Yue Kwong, Michael and three are independent non-executive directors namely Professor Chan Chi Fai, Andrew, Mr. Mak Hing Keung, Thomas and Mr. Ng Yat Cheung.