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 2022 AND PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

HIGHLIGHTS

	For the year ended 31 December		Increase/ (decrease) in
	2022	2021	**%**
	(HK$'000)	*(HK$'000)*	
Revenue	**2,401,849**	2,836,098	(15.3)
Loss after tax	**(137,019)**	(19,074)	618.4
Loss attributable to owners of the parent	**(143,138)**	(21,232)	574.2
	HK cents	*HK cents*	
Basic loss per share	**(14.11)**	(2.09)	575.1
Proposed final dividend per share	**3.00**	3.00	–
No. of restaurants and bakery outlets			
at 31 December	**122**	128	
at announcement date	**120**	125	

* *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 2022.

Over the past year, the world witnessed the Russia-Ukraine war, worldwide logistics disruptions, widespread economic slowdown and the ongoing COVID pandemic. On top of such developments, Hong Kong and Mainland China had to further contend with strict social distancing measures, and for the latter, local travel restrictions, all of which directly affected consumer sentiment. Unsurprisingly, the Group continued to face stiff headwinds that directly impeded its performance. Still, with the easing of COVID restrictions and the reopening of borders by Mainland China, we believe that the worst is behind us. As the operating environment improves, we will be ready to capture opportunities that emerge from the market recovery. Already, sales from our Hong Kong operations improved significantly in the second half year, and within the first two months of 2023 have reached approximately 80% of the pre-COVID level – an upward trajectory that we will seek to build on.

With the shadow of COVID finally receding, we regard the dynamic operating environment as beneficial to the Group. As family members meet once again, Chinese restaurants will be their preferred destinations. Similarly, travellers from abroad, whether for business or leisure, will choose Chinese restaurants to experience authentic local cuisine. In addition, 2023 is a good year for marriage, according to the Chinese calendar. As there had already been pent demand for wedding venues as well as various types of banquets during the pandemic period, the new year looks encouraging. The Group has already renovated a number of restaurants in both Hong Kong and Mainland China that will be able to cater for banquets and corporate dinners. Moreover, four new restaurants were opened in 2022 in Hong Kong, with another banquet-style restaurant just opened in early 2023. Although we halted our expansion activities in Mainland China in 2022 due to COVID-related control measures, we are cautiously optimistic about expansion in 2023. In particular, we will be looking at opening new restaurants in cities that currently have a Tao Heung presence, though we will be open to tapping new cities and provinces as deemed appropriate. At the same time, our management team will consider employing different brands depending on location, customer segment and preferences.

Our chilled and packaged food business in Mainland China performed exceptionally well during the COVID period. While selling through social media platforms such as TikTok (抖音) via popular KOLs worked satisfactorily generating rising sales, direct selling by our own sales colleagues also proved effective. We have therefore decided to dedicate more promotion efforts in all these areas and invest more resources in developing this segment moving forward. As for the Hong Kong market, we were able to attract more reputable clients for our OEM business during the year. This has enabled us to expand our client portfolio to include convenience stores, fast food chains, supermarkets, F&B companies and hotels. To support the growth of our chilled and packaged food and OEM businesses, as well as recovery of our restaurant business, we will increase investment in both our Hong Kong and Mainland China logistics centres, with a focus on adopting more advanced automated equipment and implementing system enhancements. Our principle objectives will be to increase production capacity; expand product variety, and thus promote product diversification; and further raise efficiency and enhance cost controls.

As our business is inextricably linked with society, it is only appropriate that we contribute to its betterment. In Hong Kong, we have continued to sponsor the VTC Tao Miao Institute ("稻苗學院"), which is a joint establishment of the Vocational Training Council ("**VTC**"). Through the Institute, we have had a direct hand in supporting the local F&B industry, and just as significant, Chinese culinary culture. In Mainland China, we have been patronising the operation of the Dongguan Tao Heung Chinese Cuisine Culinary Vocational Training Institute ("**Training Institute**") since 2021, to offer professional courses and recognitions for people interested in pursuing a culinary career.

While it is not our objective, we are nonetheless honoured to receive acknowledgement from different segments of the community, whether for our business, environmental or philanthropic pursuits. In 2022, we were pleased to receive the "Green HK 2022" award granted by the Green HK Advisory Committee. We were also tremendously grateful to be presented with the "China Power Brand 2021" award during the HKIM Market Leadership Award 2021, organised by the Hong Kong Institute of Marketing.

Although the past year was still highly challenging for the F&B industry, we believe that both the industry and the Group will enjoy better prospects in the future, as travel restrictions ease around the world and Mainland China further opens up. We would like to thank the Chinese Government and HKSAR Government for their unwavering support during the pandemic period. Through different forms of subsidies, as well as various health and social measures to protect the safety of our employees and customers, we have been able to weather an unprecedented storm.

Appreciation

As we begin to take steps forward, I would like to express my appreciation to the management team and the entire Tao Heung family for all of their efforts. I wish to also convey my gratitude to our business partners, customers and shareholders for their firm support, which has been crucial in enabling us to overcome numerous obstacles in the recent past.

Chung Wai Ping
Chairman and Chief Executive Officer

Hong Kong
29 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2022. During the year, the global economy was impacted by several developments including the Russia-Ukraine war, global logistics disruptions, interest rate hikes, inflation, and the ongoing COVID-19 pandemic. Among all of these developments, COVID-related health measures had the most severe impact on the Group's operations in Hong Kong and Mainland China. Dine-in controls, pandemic prevention measures, border closures, lockdowns and isolation orders led to its restaurants suspending operations for several months. In Hong Kong, these precautionary measures led to closure of an aggregate of 1,363 days for 41 shops, from mid-February to mid-April 2022. The operations in Hong Kong was improved in the second half year as compared to the first six months. As for Mainland China, the Group's restaurant operations did not perform well due to a surge in COVID-19 cases in the second half year. The government implemented more stringent measures resulting in suspended operations with an aggregate of 1,926 days for 49 shops, from March to December 2022. In response to the challenging business environment, the Group has implemented various strategies to, on the one hand, maintain top line sales through different promotion campaigns for the restaurant operation and extending reach of the chilled and packaged food business; and, on the other hand, continue consolidating internal operation to enhance efficiency and cost control measures.

Separately, the Hong Kong SAR Government has offered various subsidies during the year to support the industry through this difficult time, namely the 2022 Employment Support Scheme, and the fifth and sixth round of Anti-epidemic Fund – Catering Business Subsidy Scheme. In addition, the Group has also benefited from the training subsidies for employees staying on the job (一次性留工培訓補助), as well as other forms of subsidies from the Chinese government for its Mainland China operation. The Group has been actively managing its working capital to maintain a healthy cash position.

Financial Results

The Group recorded total revenue of HK$2,401.8 million (2021: HK$2,836.1 million), or a year-on-year decline of 15.3% for the year. Gross profit margin (defined as total revenue less cost of inventories sold divided by total revenue) hovered at 62.4% (2021: 64.4%). Loss attributable to owners of the parent amounted to HK$143.1 million (2021: HK$21.2 million).

Hong Kong Operations

The Hong Kong operations generated HK$1,307.6 million (2021: HK$1,492.9 million) of revenue for the year, representing a year-on-year decline of 12.4%. Earnings before interest, tax, depreciation and amortisation (EBITDA) slipped by 11.9% year-on-year to HK$182.1 million (2021: HK$206.6 million), while loss attributable to owners of the parent totalled HK$41.3 million (2021: HK$42.2 million).

During the year, operating environment in Hong Kong remained difficult, yet the management stayed agile and vigilant, examining different ways to adapt to changes in market situations. Specifically, Tao Heung has continued to upgrade itself and enhance its operations. The Group focused on renovation and re-branding for its restaurant business. As for the OEM business, the Group was able to secure new clients including various F&B chain stores and hotels, on top of its existing clients, comprising supermarket, fast-food restaurants and convenient stores. The Group also invested in digitalisation to enhance customer experience and efficiency, including upgrading of the Group's customer relationship management system and mobile app for enabling members to buy and redeem e-coupons, earn points, receive updates, give feedbacks, order takeaway etc. On the product front, Tao Heung has continued to offer speciality and attractive promotions such as "one-dollar chicken", "one-dollar pigeon", "40% off dim sum", "special price seafood" and a nostalgic special hot-pot menu. Such offerings have received positive feedback from customers, especially during the second half year when dining-in services was gradually resumed in Hong Kong.

As at 31 December 2022, the Group had 45 (2021: 43) restaurants in Hong Kong. With the impact of the pandemic subsiding in the second half year, the Group proceeded with expanding its restaurant network. Four new restaurants of different brands were opened, comprising one "Chung's House (鍾菜館)" in Wanchai, which is a relatively new and premium brand targeting more affluent patrons; one "Hak Ka Hut (客家好棧)" in Jordan; one "Chao Inn (潮樓)" in Tsuen Wan; and one "Tao Heung Tea House (稻香茶居)" in Kwun Tong.

Tao Heung has always been prudent and mindful of controlling costs and enhancing efficiency. Over the years, automation has been a key focus for reducing labour cost and helping to relieve the labour shortage problem. To date, the Group has introduced seven robots across five restaurants in Hong Kong, mainly helping escort customers from the reception area to their tables and distributing food items. The Group intends to add more robots to its restaurants going forward. On the workforce front, the enhanced "Shop Manager Trainee Programme" continued, and is primarily focused on selecting elite staff members, training them to take up leadership roles as restaurant managers. Another talent training programme (精英專才培訓計劃) was introduced in the second half year, targeting colleagues from all echelons of restaurant, and is aimed at developing talent and improving the front line staff performance of the Group. Separately, rent has always been an ongoing concern, which is why the management has continued to discuss rent adjustments and better rental terms with landlords, resulting in greater stability in rental expenditures overall for the year. Obviously, another major concern for the Group is food cost. In this regard, it has continued to employ a flexible menu strategy, focusing on purchasing the best value-for-money ingredients and adopt bulk purchase strategy, to minimize the impact of rising food cost.

With respect to the Tai Cheong bakeries operation, the Group operated a total of 8 Tai Cheong bakeries in Hong Kong (2021: 9) and continued to have 12 bakeries in Singapore (2021: 12) as at 31 December 2022. In Hong Kong, the management continued to fine-tune its business model through implementing location-specific marketing strategies to boost sales, running different types of promotions at different bakery locations according to local customer preferences. For the Singapore market, performance has been satisfactory. Apart from traditional Tai Cheong products, the Singapore team has been introducing various local delights to suit the tastes and preferences of local residents. In view of the encouraging response, the Group is planning to develop more product choices for the Singapore market moving forward.

Mainland China Operations

The Mainland China operations contributed HK$1,094.2 million (2021: HK$1,343.2 million) in revenue to the Group during the year, down 18.5% year-on-year. EBITDA contracted by 67.4% to HK$68.3 million (2021: HK$209.2 million). Furthermore, a loss attributable to owners of the parent of HK$101.8 million (2021: profit of HK$21.0 million) was recorded by the Group.

During the year, the operating environment in Mainland China was extremely poor for the majority of the time, especially from March to June and from October to December, and contributing to a decline in number of restaurants for the second consecutive year. Among the obstacles confronted by the Group included COVID-related control measures across the country, in major cities such as Shanghai, Guangdong province and Hubei province. Takeaway orders could not offset the loss in restaurant sales as deliveries were also banned in some major cities during such measures. The Group did introduce promotions and specialty products in the months when restaurant operations were permitted, such as "half-price dim sum" and "one-dollar pigeon", seasonal dishes and traditional soup products (疫情滋補湯水). In addition, Tao Heung launched the dim sum buffet for the supper session during the second half year.

In terms of online sales, the Group continued to cooperate with various delivery platforms such Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼). Apart from handling restaurant deliveries, some of these platforms have also been used to promote the Group's restaurant dine-in sets and cash coupons since this year. On the other hand, chilled and packaged food products business have continued to make good progress in Mainland China through both online and offline sales channels. Having witnessed favourable response from marketing efforts on social media platforms such as TikTok (抖音) and XiaoHongShu (小紅書), the Group has decided to invest more resources in marketing through these channels. It is worth noting as well that satisfactory sales have been generated by both popular KOLs as well as the Group's own sales team colleagues.

As at 31 December 2022, the Group had a total of 45 restaurants (2021: 49) and 12 Bakerz 180 stores (2021: 15) in Mainland China. In view of the border reopening and all COVID prevention measures now lifted in the country, the Group will focus on restaurant renovations and the upgrade of banquet venues to attract more patrons in the coming year. The Group will also dedicate greater resources to develop the banquet business as it believes that corporate dinners will increase now that foreign travellers can more readily enter the country with the lifting of COVID restrictions. The wedding business also looks set to flourish as 2023 is considered a good year for marriage.

Peripheral Businesses

The chilled and packaged food segment performed encouragingly during the year, contributing approximately HK$238.8 million (2021: HK$233.5 million) in segment revenue and accounting for 9.9% of the Group's (2021: 8.2%) total revenue. During the year, the group focused on expanding the diversity of clientele and sales channels. The Group has also worked closely with corporate clients as partners to collectively introduce new or different products to the market.

Although the Group's self-owned supermarket business performed modestly, it was relatively better than the restaurant operation as customers still needed to go get groceries during the pandemic. The management is planning to consolidate the supermarket business to improve efficiency and profitability. This will include adjusting operation modes and upgrading internal systems to deliver better shopping experiences.

Financial resources and liquidity

As at 31 December 2022, the total assets decreased by 17.4% to approximately HK$2,273 million (2021: approximately HK$2,750.8 million) while the total equity decreased by 19.6% to approximately HK$1,243.1 million (2021: approximately HK$1,546.2 million). As at 31 December 2022, the Group's total current assets and current liabilities were approximately HK$582.8 million (2021: approximately HK$838.4 million) and approximately HK$661.1 million (2021: approximately HK$732.3 million), respectively, while the current ratio calculated by dividing the total current assets over the total current liabilities was approximately 0.88 (2021: approximately 1.14). Funding for the Group's operation was sourced mainly from internally generated cash flows, with flexibility through the use of bank loans. As at 31 December 2022, the Group had cash and cash equivalents amounted to approximately HK$251.9 million (2021: approximately HK$457.9 million). After deducting the total interest-bearing bank borrowings of approximately HK$109.8 million (31 December 2021: approximately HK$161.7 million), the Group had a net cash surplus position of approximately HK$142.1 million (2021: approximately HK$296.2 million). As at 31 December 2022, the Group's total interest-bearing bank borrowings were decreased to approximately HK$109.8 million (2021: approximately HK$161.7 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings divided by the total equity attributable to the owners of the Company) was decreased to approximately 9.0% (2021: 10.6%). The Group maintains prudent funding and treasury policies towards its overall business operations and continues to apply measure to control costs, enhance cash flow and operational efficiency.

Capital expenditure

Capital expenditure for the year ended 31 December 2022 amounted to approximately HK$99.1 million (2021: approximately HK$122.9 million) and the capital commitments as at 31 December 2022 amounted to approximately HK$2.9 million (2021: approximately HK$11.8 million). The capital expenditure and the capital commitments were mainly for the renovation of the Group's new and existing restaurants and logistics centres.

Contingent liabilities

As at 31 December 2022, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$33.8 million (2021: approximately HK$23.7 million).

Foreign exchange risk management

The Group's sales and purchases for the year ended 31 December 2022 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 the 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 Group results.

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

Human resources

As at 31 December 2022, the Group had 5,221 employees. In order to attract and retain the high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house 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 2022, there are 7,970,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Pledge of assets

As at 31 December 2022, the Group pledged its bank deposits of approximately HK$14.5 million (2021: approximately HK$16.0 million), right-of-use assets of approximately HK$46.9 million (2021: approximately HK$47.7 million) and buildings of approximately HK$29.1 million (2021: approximately HK$30.2 million) and investment properties of approximately HK$20.5 million (2021: approximately HK$20.5 million) to secure the banking facilities granted to the Group.

Prospects

Although the COVID-19 pandemic has brought immense challenges to the Group over the past few years, the management believes that the worst is now behind. It is cautiously optimistic about Tao Heung's overall business in 2023, and plans to expand the Group's footprint through restaurant openings in both Hong Kong and Mainland China.

In Hong Kong, given the popularity of "Chung's House" as well as other specialty brands such as "Hak Ka Hut" and "Chao Inn" in recent years, the Group will continue with its multi-brand strategy by opening more specialty brand outlets in suitable locations across the city. As the border is now open and business has almost returned to normal, plus expectations are high for more corporate dinners and wedding banquets in the future, the Group has established a new restaurant brand, "Grand Ballroom (潮囍薈)," in early January 2023. Located in The One in Tsim Sha Tsui, Grand Ballroom will mainly focus on the banquet business, offering venues for weddings, meetings and special events for up to 700 guests. Furthermore, more resources will also be dedicated to developing the OEM business, which has proven to have great potential for growth.

In Mainland China, the management will dedicate more resources to develop the social media marketing channels and cooperate with more popular KOLs, given their highly favourable influence on the Group's business. On offline front, with COVID-19 now over, the Group will once again increase efforts in developing its sales team for its chilled and packaged food products, to expand distribution network through reaching out to more supermarket chains. As for restaurant network expansion, with travel restrictions all lifted, the management plans to open new restaurants, both in cities currently where the Group has restaurants as well as in new cities and provinces that are deemed worth developing. Also, to drive growth, specifically for the chilled and packaged food business, the management is planning to upgrade the logistics centres in Hong Kong and Mainland China to support the segment's rapid development. The Group believes that the chilled and packaged food business has enormous potential, which can be realised through engaging different marketing channels and identifying different customer groups. The management will continue to expand its business reach to improve the segment's profitability.

Over the years, Tao Heung has been adhering to the "Three-High Quality Standard (三優)" across its operations, comprising "high-quality food production (優質出品)", "high-quality service (優質服務)" and "high-quality environment (優質環境)". Going forward, Tao Heung will continue to consolidate its business foundation, driving sales while working diligently to control costs in order to further strengthen its position as a leading Chinese culinary group in Hong Kong. With a diversified brand portfolio and commitment to offering quality food and services, the Group aims to satisfy demand from different customer segments and create long-term value for all 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 2022, together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	**2022** *HK$'000*	2021 *HK$'000*
REVENUE	*4*	**2,401,849**	2,836,098
Cost of sales		**(2,391,379)**	(2,613,079)
Gross profit		**10,470**	223,019
Other income and gains, net	*4*	**137,295**	65,850
Selling and distribution expenses		**(96,498)**	(93,595)
Administrative expenses		**(149,720)**	(179,921)
Other expenses		**(34,391)**	(11,149)
Finance costs	*5*	**(27,024)**	(30,703)
Share of profits of associates		**2,525**	8,394
LOSS BEFORE TAX	*6*	**(157,343)**	(18,105)
Income tax credit/(expense)	*7*	**20,324**	(969)
LOSS FOR THE YEAR		**(137,019)**	(19,074)
Attributable to:			
Owners of the parent		**(143,138)**	(21,232)
Non-controlling interests		**6,119**	2,158
		(137,019)	(19,074)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	*9*	**(14.11)**	(2.09)
– Diluted (HK cents)	*9*	**(14.11)**	(2.09)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 *HK$'000*	2021 *HK$'000*
LOSS FOR THE YEAR	**(137,019)**	(19,074)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(105,210)**	42,810
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(242,229)**	23,736
Attributable to:		
Owners of the parent	**(246,211)**	20,830
Non-controlling interests	**3,982**	2,906
	(242,229)	23,736

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**2022** *HK$'000*	2021 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**792,835**	924,202
Right-of-use assets		**599,930**	689,441
Investment properties		**25,100**	25,100
Goodwill		**38,492**	40,153
Other intangible asset		**–**	–
Investments in associates		**12,302**	13,947
Deferred tax assets		**141,441**	123,166
Deposits and other receivable		**63,363**	72,497
Deposits for purchases of items of property, plant and equipment		**16,723**	23,883
Total non-current assets		**1,690,186**	1,912,389
CURRENT ASSETS			
Inventories		**126,358**	151,450
Trade receivables	*10*	**46,640**	57,437
Prepayments, deposits and other receivables		**143,338**	153,284
Tax recoverable		**87**	2,315
Pledged deposits		**14,515**	15,989
Cash and cash equivalents		**251,854**	457,925
Total current assets		**582,792**	838,400
CURRENT LIABILITIES			
Trade payables	*11*	**127,335**	124,154
Other payables and accruals		**230,040**	241,533
Interest-bearing bank borrowings		**109,833**	161,667
Lease liabilities		**190,438**	200,870
Tax payable		**3,415**	4,056
Total current liabilities		**661,061**	732,280
NET CURRENT (LIABILITIES)/ASSETS		**(78,269)**	106,120
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,611,917**	2,018,509

	2022	2021
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Other payables and accruals	**12,374**	13,069
Lease liabilities	**339,478**	439,327
Deferred tax liabilities	**16,943**	19,902
Total non-current liabilities	**368,795**	472,298
Net assets	**1,243,122**	1,546,211
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**101,435**	101,635
Reserves	**1,120,120**	1,426,991
	1,221,555	1,528,626
Non-controlling interests	**21,567**	17,585
Total equity	**1,243,122**	1,546,211

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 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.

As at 31 December 2022, the Group had net current liabilities of HK$78,269,000. The directors believe that the Group has sufficient cash flows from operations and available bank facilities to meet its liabilities as and when they fall due. Therefore, the consolidated financial statements are prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "**Conceptual Framework**") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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 2022 and 2021 and certain non-current asset information as at 31 December 2022 and 2021 by geographic area.

(a) Revenue from external customers

	2022	2021
	HK$'000	*HK$'000*
Hong Kong	**1,307,605**	1,492,851
Mainland China	**1,094,244**	1,343,247
	2,401,849	2,836,098

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

(b) Non-current assets

	2022 *HK$'000*	2021 *HK$'000*
Hong Kong	**610,862**	626,656
Mainland China	**874,520**	1,090,070
	1,485,382	1,716,726

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:

	2022 *HK$'000*	2021 *HK$'000*
Restaurant and bakery operations	**2,011,308**	2,476,295
Sale of food and other items	**238,777**	233,481
Poultry farm operations	**151,764**	126,322
	2,401,849	2,836,098

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

	2022 *HK$'000*	2021 *HK$'000*
Bank interest income	**7,998**	9,665
Government grants	**84,721**	32,371
Gross rental income	**464**	505
Sponsorship income	**1,267**	1,479
Gain on disposal of items of property, plant and equipment, net	**–**	1
Gain on termination of leases	**19,331**	6,990
Foreign exchange differences, net	**–**	1,227
Others	**23,514**	13,612
	137,295	65,850

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 *HK$'000*	2021 *HK$'000*
Interest on bank loans	**6,082**	3,233
Interest on lease liabilities	**20,942**	27,470
	27,024	30,703

6. LOSS BEFORE TAX

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

	2022	2021
	HK$'000	*HK$'000*
Cost of inventories sold	**904,046**	1,011,030
Depreciation of property, plant and equipment*	**159,839**	164,402
Depreciation of right-of-use assets*	**220,816**	238,809
Employee benefit expense* (including directors' remuneration):		
Salaries and bonuses	**707,172**	754,987
Retirement benefits scheme contributions (defined contribution schemes)	**56,363**	58,721
	763,535	813,708
Foreign exchange difference, net	**9,244**	(1,227)
Impairment/(reversal of impairment) of trade receivable, net	**(1,364)**	128
Impairment of items of property, plant and equipment	**5,380**	2,030
Impairment of right-of-use assets	**9,232**	9,207
Write-off of items of property, plant and equipment	**11,874**	2,649
Reversal of unutilised provision	**–**	(4,100)
Provision for onerous contracts	**–**	1,235

* The cost of sales for the year ended 31 December 2022 amounting to HK$2,391,379,000 (2021: HK$2,613,079,000) included depreciation of items of property, plant and equipment of HK$152,906,000 (2021: HK$157,090,000), depreciation of right-of-use assets of HK$220,519,000 (2021: HK$238,627,000), employee benefit expense of HK$721,409,000 (2021: HK$769,099,000).

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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. The first HK$2,000,000 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2022	2021
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**3,409**	3,903
Overprovision in prior years	**(114)**	(120)
Current – Mainland China	**2,292**	5,943
Deferred	**(25,911)**	(8,757)
Total tax charge/(credit) for the year	**(20,324)**	969

8. DIVIDENDS

	2022 *HK$000*	2021 *HK$000*
Dividends recognized as distribution during the year:		
2020 final dividend – HK3.00 cents per ordinary share	**–**	30,490
2021 interim dividend – HK3.00 cents per ordinary share	**–**	30,490
2021 final dividend – HK3.00 cents per ordinary share	**30,430**	–
2022 Interim dividend – HK$3.00 cents per ordinary share	**30,430**	–
	60,860	60,980
Dividends proposed after the end of the reporting period:		
2021 final dividend – HK3.00 cents per ordinary share	**–**	30,430
2022 final dividend – HK3.00 cents per ordinary share	**30,430**	–
	30,430	30,430

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

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,014,348,000 (2021: 1,016,433,082) in issue during the year.

No adjustment has been made to the basic loss per share amount in respect of a dilution as the impact of share options outstanding had no dilutive effect on the basic loss per share.

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

	2022 *HK$'000*	2021 *HK$'000*
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	**(143,138)**	(21,232)

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**1,014,348,000**	1,016,433,082

10. TRADE RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade receivables	**49,091**	61,252
Impairment	**(2,451)**	(3,815)
	46,640	57,437

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 as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022	2021
	HK$'000	*HK$'000*
Within 1 month	**34,165**	42,466
1 to 3 months	**12,195**	14,648
Over 3 months	**280**	323
	46,640	57,437

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:

	2022	2021
	HK$'000	*HK$'000*
Within 1 month	**88,589**	111,686
1 to 2 months	**32,935**	6,309
2 to 3 months	**446**	738
Over 3 months	**5,365**	5,421
	127,335	124,154

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 Board has recommended the payment of a final dividend of HK3.00 cents per share for the year ended 31 December 2022 (2021: HK3.00 cents). The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting ("**AGM**") to be held on 1 June 2023. Upon board's approval, the proposed dividend will be paid on 21 June 2023 to shareholders whose names shall appear on the Register of Members of the Company on 7 June 2023.

Closure of Register of Members

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

(i) From Thursday, 25 May 2023 to Thursday, 1 June 2023, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2022 Annual General Meeting. In order to be eligible to attend and vote at the 2022 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 Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 24 May 2023; and

(ii) On Thursday, 8 June 2023, 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 Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 7 June 2023.

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 2022, 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 separated 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 2022.

Purchase, Sale or Redemption of Listed Securities

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

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, Professor Chan Chi Fai, Andrew, and Ms. Wong Fun Ching 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 2022 have been reviewed by the Audit Committee, which is of the view that the applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

Scope of Work of the Company's Auditor in respect of this Preliminary Announcement

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2022, consolidated statement of profit or loss, consolidated statement of other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been agreed by the Company's auditor, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2022. The work performed by the Company's auditor 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 HKICPA and consequently, no assurance has been expressed by the Company's auditor on this preliminary announcement.

Annual General Meeting

The 2022 Annual General Meeting of the Company will be held on Thursday, 1 June 2023. Notice of the 2022 Annual General Meeting will be published and issued to shareholders in due course.

PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

The Board proposed to amend and restate the existing memorandum and articles of association of the Company ("**Memorandum and Articles**") for the purposes of, among others, aligning the Memorandum and Articles with the legal and regulatory requirements, including the applicable laws of the Cayman Islands and the amendments made to Appendix 3, in respect to a uniform set of 14 "Core Standards" for the shareholder protections, to Listing Rules which took effect on 1 January 2022. Other house-keeping amendments to the Memorandum and Articles are also proposed for the purpose of clarifying existing practices and making consequential amendments in line with the amendments to the Memorandum and Articles (collectively, the "**Amendments**"). Details of the proposed Amendments will be set out in the circular to be dispatched to the Shareholders in due course. After the proposed amendments to the Memorandum and Articles come into effect, the full text of the new set of Memorandum and Articles will be published on the websites of the Company and the Stock Exchange (www.hkexnews.hk).

The proposed Amendments are subjected to the approval of the shareholders by way of a special resolution ("**Special Resolution**") at the upcoming annual general meeting, with the amendments to take effect when the proposed Amendments become effective at the annual general meeting. Prior to the passing of the Special Resolution, the existing Memorandum and Articles shall remain valid.

A circular of the annual general meeting of the Company containing, inter alia, full details of the proposed Amendments to the Memorandum and Articles, together with a notice of the annual general meeting of the Company and the related proxy form, will be dispatched to the shareholders of the Company 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
CHUNG Wai Ping
Chairman and Chief Executive Officer

Hong Kong, 29 March 2023

As at the date of this announcement, the board of the Directors comprised ten 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 four are independent non-executive Directors namely Professor CHAN Chi Fai, Andrew, Mr. MAK Hing Keung, Thomas, Mr. NG Yat Cheung and Ms. WONG Fun Ching.