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 2018

HIGHLIGHTS

	For the year ended 31 December		Increase in
	2018	2017	**%**
	(HK$'000)	*(HK$'000)*	
Revenue	**4,138,788**	4,025,280	2.8
Profit after tax	**108,751**	86,736	25.4
Profit attributable to owners of the parent	**116,390**	89,082	30.7
	HK cents	*HK cents*	
Basic earnings per share	**11.45**	8.76	30.7
Proposed final dividend per share	**6.0**	6.0	–
No. of restaurants and bakery outlets including associates			
at 31 December	**153**	152	
at announcement date	**152**	152	

* *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 2018.

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

PLANNING FOR THE LONG-TERM

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

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

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

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

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

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

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

Appreciation

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

Chung Wai Ping
Chairman

Hong Kong
21 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Review

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

Financial Results

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

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

Hong Kong Operations

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

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

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

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

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

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

Mainland China Operations

As at the review year, the Mainland China operations contributed revenue totalling HK$1551.0 million (2017: HK$1,454.2 million). Furthermore, profit attributable to owners of the parent of HK$24.2 million (2017: HK$14.2 million) was recorded.

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

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

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

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

Peripheral Business

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

Financial Resources and Liquidity

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

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

As at 31 December 2018, the Group's gearing ratio (defined as total interest-bearing bank borrowings plus finance lease payable divided by total equity attributable to owners of the parent) was 9.0% (2017: 11.4%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2018 amounted to approximately HK$127.5 million and capital commitments as at 31 December 2018 amounted to approximately HK$17.8 million. The capital expenditure and capital commitments were mainly for the renovation of the Group's new and existing restaurants.

Contingent Liabilities

As at 31 December 2018, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$18.7 million (2017: approximately HK$19.0 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2018 were mostly denominated in Hong Kong Dollars ("**HK$**") and Renminbi ("**RMB**").

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

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

Human Resources

As at 31 December 2018, the Group had 7,829 employees. In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house as well as external training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted share option schemes, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 31 December 2018, there are 16,160,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Pledge of Assets

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

Prospects

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

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

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

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

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 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
REVENUE	*4*	**4,138,788**	4,025,280
Cost of sales		**(3,677,269)**	(3,635,384)
Gross profit		**461,519**	389,896
Other income and gains, net	*4*	**33,413**	31,361
Selling and distribution expenses		**(111,871)**	(116,186)
Administrative expenses		**(199,188)**	(184,525)
Other expenses		**(32,409)**	(12,064)
Finance costs	*5*	**(3,100)**	(3,902)
Share of profits of associates, net		**648**	3,054
PROFIT BEFORE TAX	*6*	**149,012**	107,634
Income tax expense	*7*	**(40,261)**	(20,898)
PROFIT FOR THE YEAR		**108,751**	86,736
Attributable to:			
Owners of the parent		**116,390**	89,082
Non-controlling interests		**(7,639)**	(2,346)
		108,751	86,736
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	*9*	**11.45**	8.76
– Diluted (HK cents)	*9*	**11.45**	8.76

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,031,396**	1,215,235
Prepaid land lease payments		**86,543**	92,742
Investment properties		**29,400**	26,800
Goodwill		**38,883**	39,556
Other intangible asset		**884**	1,008
Investments in associates		**11,964**	9,768
Biological assets		**–**	4,077
Deferred tax assets		**100,221**	102,850
Rental deposits		**97,495**	109,606
Deposits for purchases of items of property, plant and equipment		**82,884**	68,702
Total non-current assets		**1,479,670**	1,670,344
CURRENT ASSETS			
Inventories		**149,745**	145,207
Biological assets		**235**	9,450
Trade receivables	*10*	**42,800**	46,347
Prepayments, deposits and other receivables		**167,244**	144,418
Tax recoverable		**6,529**	9,394
Pledged deposits		**13,653**	13,781
Cash and cash equivalents		**531,416**	530,471
Total current assets		**911,622**	899,068
CURRENT LIABILITIES			
Trade payables	*11*	**135,177**	216,708
Other payables and accruals		**296,443**	268,898
Interest-bearing bank borrowings		**149,667**	198,584
Finance lease payable		**176**	186
Tax payable		**16,932**	16,260
Total current liabilities		**598,395**	700,636
NET CURRENT ASSETS		**313,227**	198,432
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,792,897**	1,868,776

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

Notes:

1. BASIS OF PREPARATION

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

HKFRS 9 *Financial Instruments*

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

(a) Classification and measurement

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

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

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

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

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

(b) Impairment

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

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

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

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

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

3. OPERATING SEGMENT INFORMATION AND DISAGGREGATION OF REVENUE

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 contracts with customers disaggregated by geographic markets for the years ended 31 December 2018 and 2017, and certain non-current assets information as at 31 December 2018 and 2017, by geographic area.

(a) *Revenue from contracts with customers disaggregated by geographic markets*

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

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

(b) *Non-current assets*

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

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

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

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

Revenue from contracts with customers

All revenue are recognised when goods and services are transferred to customers at a point in time.

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

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

5. FINANCE COSTS

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

6. PROFIT BEFORE TAX

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

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

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

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

8. DIVIDENDS

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

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

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 (2017: 1,016,611,000) in issue during the year.

For the year ended 31 December 2018, no adjustment was made to the basic earnings per share amount in respect of a dilution as the share options had no dilutive effect on the basic earnings per share. For the year ended 31 December 2017, the calculation of the diluted earnings per share amount was based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 354,166 assumed to have been issued at no consideration on the deemed conversion of all share options into ordinary shares.

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

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

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

10. TRADE RECEIVABLES

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

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group also grants a credit period 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 loss allowance as at the end of the reporting period, based on the invoice date, is as follows:

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

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:

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

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

OTHER INFORMATION

Dividend

In acknowledging continuous support from the Company's shareholders, the Directors have declared the payment of a final dividend of HK6.00 cents per ordinary share in respect of the year ended 31 December 2018, payable on 12 June 2019 to shareholders whose names appear on the register of member of the Company on 29 May 2019.

Closure of Register of Members

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

(i) From Monday, 20 May 2019 to Thursday 23 May 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2018 Annual General Meeting. In order to be eligible to attend and vote at the 2018 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 May 2019; and

(ii) On Thursday, 30 May 2019, for the purpose of ascertaining shareholders' entitlements to the proposed final dividend. In order to establish the entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 29 May 2019;

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

Corporate Governance

During the year ended 31 December 2018, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors have complied with the required standards as set forth in the Model Code throughout the year ended 31 December 2018.

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 2018 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 2018.

Annual General Meeting

The 2018 Annual General Meeting of the Company will be held on Thursday, 23 May 2019. Notice of the 2018 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, 21 March 2019

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