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 2021

HIGHLIGHTS

	For the year ended 31 December		Increase/ (decrease) in
	2021	2020	%
	(HK$'000)	*(HK$'000)*	
Revenue	**2,836,098**	2,388,477	18.7%
Loss after tax	**(19,074)**	(55,383)	(65.6%)
Loss attributable to owners of the parent	**(21,232)**	(57,956)	(63.4%)
	HK cents	*HK cents*	
Basic loss per share	**(2.09)**	(5.70)	(63.4%)
Proposed final dividend per share	**3.00**	3.00	0.0%
No. of restaurants and bakery outlets			
at 31 December	**128**	136	
at announcement date	**125**	129	

* *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 2021.

2021 marked the second full year of the Covid-19 pandemic. With vaccination rates increasing around the world, and the pandemic well under control in Mainland China, many societies have gradually adjusted to the new normal. For the F&B industry, the pandemic's impact was less severe when compared with 2020. As for the Group, economic activity in our key markets improved gradually through the course of year, which, combined with the agility and foresight of our management team, enabled Tao Heung to realise a much more favourable outcome in 2021.

In Hong Kong, our operations achieved a marked improvement, with overall day time business increasing significantly on the back of higher same store sales. With regard to our new premium brand "Chung's House", the highly receptive response has encouraged us to proceed with more restaurant openings in 2022. As for the OEM business, which includes processed and semi-processed food for local convenience stores and fast food brands, healthy growth was achieved, thus helping serve as partial buffer for the heavily impacted restaurant operations. Although social distancing measures were still enforced with large group gatherings prevented and generally poor sentiment towards dining out, we are grateful that with the dedications and hard work of our team, our Hong Kong operations delivered relatively good results during the year, thus turning the tide of decline experienced in the previous year.

In Mainland China, the nation has effectively contained the pandemic threat, with consumer sentiment returning to normal. The segment consequently achieved a turnaround, recording stable business growth during the year. The chilled and packaged food online ordering and delivery business has performed consistently well. It was attributed to the introduction of new distribution channels, through the effective use of social media and KOLs. In view of the satisfactory sales, we will direct even greater focus on tapping new and innovative distribution channels going forward.

Business environment has been challenging in recent years, Tao Heung has been blessed with a highly flexible and responsive management team. One of the most important long-term strategies that we have been implementing over the years include proactive business diversifications to mitigate risks. Leveraging our traditional strength as restaurant operator, we have developed and will further expand our OEM business in Hong Kong and overseas. In Mainland China, we have been running peripheral businesses like supermarkets and integrated complexes. Diversification in terms of product offerings included special takeaway items, group catering, festive and seasonal products, all of which have helped alleviate the impact of dining restrictions, while at the same time pave the way for the long-term growth of these business interests. We have also directed greater energies on developing chilled and packaged food for both corporate and retail customers, and have started investing in social media outreach. We saw overwhelmingly good response and shall continue to focus in the direction of satisfying demand from the work from home crowd and those who have grown accustomed to the stay at home lifestyle born from Covid-19 lockdowns.

Subsequent to the year, the Covid-19 situation has turned for the worse in Hong Kong. During the first quarter of 2022, headwinds have increased significantly for local retailers and F&B operators. Tighter dining restrictions, weak consumer sentiment, and constantly rising infection rates have all affected the Group's operations, not only in terms of demand, but also on the operations front. Nonetheless, the management has been closely monitoring developments and have taken relevant steps to mitigate the impact of the fifth wave of Covid-19 on the city, maintaining the view that long-term prospects continue to be promising. As for Mainland China, the Greater Bay Area will remain our principal focus as we believe that the region holds tremendous potential. In view of the overall conditions in which Tao Heung operates, the general consensus of the management team is that the long-term outlook continues to be favourable for the Group and the F&B industry as a whole.

As always, apart from running a sustainable Chinese cuisine business, giving back to society has been an integral part of Tao Heung's makeup. This is reflected by our commitment to both training the next generation for entering the F&B industry, and ensuring that the door is always open to those curious about pursuing a career in catering and associated sectors. Hence, besides the joint establishment of VTC Tao Miao Institute ("**稻苗學院**") with the Vocational Training Council ("**VTC**") in Hong Kong since years ago, Tao Heung patronise the operation of Dongguan Tao Heung Chinese Cuisine Culinary Vocational Training Institute ("**Training Institute**") in Mainland China in 2021. Both efforts enable the Group to promote Chinese culinary traditions among new entrants to the industry, through training, accreditation and working experience. The Training Institute has a GFA of 3,800 sq. m. and is situated within our headquarter in Dongguan, Guangdong Province. Courses include the preparation of Chinese dishes, dim sums and pastries, Western dishes and pastries, confections, coffees, wines, etc. Certain courses are dedicated to Tao Heung's own restaurant network, while others are for the industry in general. Commencing operation in late 2021, the Training Institute has trained over 700 students to date. The Training Institute also co-operates with local education institutes, offering training sessions to students of relevant tertiary courses.

With 2021 also marking the 30th anniversary of Tao Heung, we duly took the opportunity to share our happiness with the Group's loyal customers. Apart from introducing a range of anniversary food items like Dragon Boat Dumplings and Mooncakes, we also sponsored a meaningful charitable activity in June 2021. Known as Barefoot Walk Charity (赤腳慈行), the Hong Kong artist Mr Milkson Fong (方紹聰) engaged in a 180 km trek to help supporting underprivileged children and children with intellectual disabilities. This effort fully aligned with Tao Heung's corporate culture and commitment to giving back to the community.

We are also pleased to note that Tao Heung was granted the Hong Kong Retail Innovation Award 2021 – Best Digital Transformation Award for F&B, from the Hong Kong Retail Technology Industry Association during the year. The award was in recognition of innovations associated with our mobile ordering and membership applications for which we are highly grateful.

The Group is certainly thankful as well to the Hong Kong SAR Government for its support following the Covid-19 outbreak. In the past two years, numerous obstacles have emerged, creating an uncertain future for all Hongkongers. Through the provision of catering business subsidy scheme and control measures to mitigate the pandemic's impact, a level of normalcy has returned amid the chaos. Tao Heung will therefore continue to work hand-in-hand with local authorities to safeguard the health and safety of colleagues and customers.

Going forward, we will continue to exercise perseverance and patience as we navigate the Group through the latest pandemic storm. As always, Chinese cuisine will continue to be our fundamental business focus and catalyst for our new endeavours. We will duly monitor the market for the latest market trends, and, in a prudent and agile manner, manage our business to seize the best opportunities.

APPRECIATION

I wish to thank the management team and all of our colleagues for their tremendous effort, which has been crucial for the Group's survival during these particularly testing times. I would like to also express my gratitude to all of Tao Heung's business associates, customers and shareholders for their unwavering support; serving as the cornerstone of our sustained long-term development.

Chung Wai Ping
Chairman

Hong Kong
30 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2021. During the year, the global economy continued to be impacted by Sino-US tensions, Covid-19 and supply chain disruptions, among other challenges. Nonetheless, the latest financial period was significantly better for the F&B industry in both Hong Kong and Mainland China when compared with 2020. The overall operating environment gradually improved in early 2021, and this continued for the duration of the year. In Hong Kong, though business did improve, strict social distancing measures implemented by the government remained in place for the entire year, thus hindering the recovery and performance of the Group's restaurants. As for Mainland China, while there were sporadic cases of Covid-19 in certain cities, such outbreaks were quickly contained, hence Tao Heung's operations in the country were able to perform satisfactorily as a whole. Consequently, turnover was up significantly and the Mainland China business achieved a profit turnaround. Overall, the Group has been able to take a significant stride forward when compared with the preceding year.

Financial Results

The Group recorded total revenue of HK$2,836.1 million (2020: HK$2,388.5 million), or a year-on-year increase of 18.7%, during the year. Gross profit margin (defined as total revenue less cost of inventories sold divided by total revenue) hovered at 64.4% (2020: 65.4%). Loss attributable to owners of the parent narrowed significantly to HK$21.2 million (2020: HK$58.0 million).

The Board has proposed a final dividend of HK3.0 cents per share for the year ended 31 December 2021 (2020: HK3.0 cents).

Hong Kong Operations

The Hong Kong operations contributed revenue of HK$1,492.9 million (2020: HK$1,265.4 million) to the Group during the year, representing a year-on-year increase of 18.0%. Earnings before interest, tax, depreciation and amortisation (EBITDA) declined modestly by 5.3% year-on-year to HK$206.6 million (2020: HK$218.1 million), while loss attributable to owners of the parent retreated to HK$42.2 million (2020: HK$45.2 million).

During the year, the business environment remained highly challenging in Hong Kong, with strict social distancing protocols remaining in place. In particular, the banning of large group gatherings and evening dining during certain time periods have affected family and late night dining. Nevertheless, same store sales among the Group's restaurants did improve during the year, contributing to the segment's rise in revenue as compared with last year.

Amid unprecedented times, Tao Heung has continued to direct efforts towards daytime dining, festive foods, takeaway and delivery-related opportunities. Consequently, marketing strategies and promotions such as "one-dollar chicken", "one-dollar pigeon" and the popular "half-price dim-sum" have continued to be employed to encourage morning and tea time consumption. In respect of the takeaway operation, the Group has enhanced relevant sales channels in line with its increased focus. As a result, its partnership with food delivery suppliers such as Deliveroo, Foodpanda and Gulu has strengthened, which in turn has led to overwhelmingly favourable response from the general public. Furthermore, Tao Heung has offered its own mobile ordering service for dine-in customers, which is applicable to all of its Hong Kong restaurants to encourage quicker turnover, partly mitigating the impact of lost orders due to evening dining restrictions. The Group has also in recent years introduced the "Chung's House (鍾菜館)" premium brand, which targets more affluent patrons. Due to favourable response, there are already currently five stores under this brand, located in Cyberport, Central, Stanley, Causeway Bay and Fo Tan, with more to come.

As at 31 December 2021, the Group had 43 (2020: 46) restaurants across Hong Kong. Though a number of restaurants were closed in the first half of 2021, the Group opened two restaurants in the first half of year and one restaurant in the second half year. It is worth noting that a new Chung's House restaurant in Wan Chai is under renovation and set to open in April 2022. The Group will continue to reinforce its position as a leading Chinese culinary group that possesses a diverse brand portfolio capable of catering for different customer segments.

In bolstering its market presence, Tao Heung has been prudent and mindful of also controlling costs and enhancing efficiency. This is reflected by ongoing negotiations with landlords to secure better rental terms and rates, especially as renewal periods approach – a practice of particular relevance amid the difficult operating climate. Food costs are moderated as well by purchasing in bulk, stockpiling suitable items and better menu planning. On the labour front, flexible and efficient manpower allocation and the streamlining of operations have been initiated to achieve cost savings.

With regard to Tai Cheong bakeries, the Group operated a total of nine bakeries in Hong Kong (2020: 13), and 12 bakeries in Singapore (2020: 8) as at 31 December 2021. The Hong Kong business continues to be in a consolidation and streamlining period. In Singapore, the bakeries have performed encouragingly, receiving overwhelmingly favourable response and support from local customers. Due to the promising results in Singapore, the management will consider opening additional bakeries with partners in the coming year to expand the global sales network.

As 2021 marked the 30th anniversary of the Group, Tao Heung took the opportunity to sponsor a charitable activity in June, called 赤腳慈行. Founded by Mr. Milkson Fong (方紹聰), a local artist, the event provided an ideal opportunity to both promote its corporate image and give back to society through a highly meaningful cause. Other related promotions include the introduction of 30th anniversary festive products such as Dragon Boat Festival dumplings and mooncakes.

Mainland China Operations

The Mainland China operations contributed HK$1,343.2 million in revenue to the Group during the year (2020: HK$1,123.1 million), up 19.6% year-on-year. EBITDA increased by 9.7% to HK$209.2 million (2020: HK$190.7 million), while profit attributable to owners of the parent amounted to HK$21.0 million; marking a turnaround from a loss-making position last year (2020: Loss of HK$12.8 million).

Even though cases of Covid-19 emerged in different parts of Mainland China during the year, such instances were quickly controlled. Consequently, the economy was able to recover to an almost pre-pandemic state, which in turn allowed the business segment to increase revenue and achieve a turnaround. In view of the new normal, Tao Heung Group has nonetheless remained committed to bolstering the takeaway and delivery business. This commitment is reflected in ongoing co-operative ties with various popular food-related platforms such as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼). Separately, the Group also introduced new distribution channels during the year that are engaged in the direct selling and delivery of chilled and packaged foods to end consumers. These channels leverage social media platforms such as TikTok (抖音) as well as Mainland KOLs to conduct promotions. Given the overwhelmingly favourable response, Tao Heung will dedicate even more effort towards developing these channels to promote its chilled and packaged food moving forward.

As at 31 December 2021, the Group had a total of 49 restaurants in Mainland China (2020: 48), with three restaurants opened in the second half year. It also operated 15 bakeries (2020: 21) under the Bakerz 180 brand name, including two bakeries opened in Guangdong Province in the second half of 2021. The Group aims to open a further six new bakeries and/or restaurants in major cities in the Greater Bay Area in 2022, so as to seize opportunities for creating more revenue streams.

Peripheral Businesses

The chilled and packaged food segment continued to perform well during the year, delivering HK$233.5 million in revenue to the Group. The Group's OEM business, which engages in the production of processed and semi-processed frozen food items for corporate clients such as fast-food chain restaurants and convenience stores in Hong Kong, performed satisfactorily. Since Tao Heung believes that the OEM business possesses tremendous potential, it will invest more resources in developing this area of operation.

In Mainland China, apart from encouraging response from the direct selling of chilled and packaged food products through social media platforms, the Group's self-owned supermarkets, which are found at its three integrated complexes, also performed well. The Group believes that they have the potential for contributing even greater revenue in the future, supported by a strong line up of chilled and packaged food products. The chilled and packaged food segment will therefore continue to be an important area of focus for the Group moving forward, especially due to the Covid-19 pandemic and the work from home norm.

Financial Resources and Liquidity

As at 31 December 2021, the Group's total assets were approximately HK$2,750.8 million (2020: approximately HK$2,943.9 million) while the total equity was approximately HK$1,546.2 million (2020: approximately HK$1,594.8 million).

As at 31 December 2021, the Group had cash and cash equivalents of approximately HK$457.9 million (2020: HK$561.2 million). After deducting total interest-bearing bank borrowings of approximately HK$161.7 million (2020: HK$272.5 million), the Group had a net cash surplus position of approximately HK$296.2 million (2020: HK$288.7 million).

As at 31 December 2021, the Group's gearing ratio (defined as total interest-bearing bank borrowings divided by total equity attributable to owners of the parent) was 10.6% (2020: 17.3%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2021 amounted to approximately HK$122.9 million (2020: HK$196.7 million) and capital commitments as at 31 December 2021 amounted to approximately HK$11.8 million (2020: HK$17.6 million). The capital expenditure and capital commitments were mainly for the renovation of the Group's new and existing restaurants and logistic centres.

Contingent Liabilities

As at 31 December 2021, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$23.7 million (2020: approximately HK$24.8 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2021 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 2021, the Group had 5,211 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 2021, there are 8,880,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Pledge of Assets

As at 31 December 2021, the Group pledged its bank deposits of approximately HK$16.0 million (2020: HK$15.1 million), right-of-use assets of approximately HK$47.7 million (2020: HK$48.5 million) and buildings of approximately HK$30.2 million (2020: HK$31.3 million) and investment properties of approximately HK$20.5 million (2020: HK$20.5 million) to secure the banking facilities granted to the Group.

Prospects

Subsequent to year, the Covid-19 crisis emerged once again in Hong Kong, a result of the more contagious Omicron variant. The management therefore believes that the impact of the pandemic may last for some time, and the operating environment will be filled with uncertainties.

Based on the latest pandemic situation in Hong Kong, the Group will dedicate greater effort towards developing the OEM business, as this will also allow it to diversify risk, particularly since the poor retail environment invariably impacts the restaurant business heavily. The new HK$10,000 consumption voucher scheme to be rolled out in 2022 will hopefully boost consumer sentiment. Also, once the social distancing measures is relaxed in gradual and orderly manner in the second half of April, the economy is anticipated to gradually recover. Tao Heung will therefore employ more promotions and marketing campaigns to capture relevant opportunities to boost sales. On the shop opening front, the Group will continue to promote the "Chung's House (鍾菜館)" brand, which will include prudently expanding its network at suitable locations.

In Mainland China, the country has been able to gain an upper hand on Covid-19, facilitating the return of economic growth. The management is therefore cautiously optimistic about its prospects in the country, and will continue to look for expansion opportunities in key provinces. At the same time, social media promotions and relevant distribution channels will be key focuses of the Group as it strives to make greater headway in the country.

On the operations front, enhancing efficiency and profitability will remain key objectives of the Group. Consequently, controlling costs from all facets of operation including rent, food and labour, will be aggressively pursued. As the health and wellbeing of employees and customers have always been primary concerns of Tao Heung, the management will continue to be vigilant and pragmatic, and will swiftly take action as circumstances dictate. The Group is fully committed to deepening its competitiveness and leveraging its brand equity to create sustainable long-term value for all stakeholders.

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 2021, together with the comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	**2021**	2020
		HK$'000	*HK$'000*
REVENUE	*4*	**2,836,098**	2,388,477
Cost of sales		**(2,613,079)**	(2,356,715)
Gross profit		**223,019**	31,762
Other income and gains, net	*4*	**65,850**	213,500
Selling and distribution expenses		**(93,595)**	(90,047)
Administrative expenses		**(179,921)**	(168,418)
Other expenses		**(11,149)**	(27,893)
Finance costs	*5*	**(30,703)**	(36,921)
Share of profits of associates, net		**8,394**	5,600
LOSS BEFORE TAX	*6*	**(18,105)**	(72,417)
Income tax (expense)/credit	*7*	**(969)**	17,034
LOSS FOR THE YEAR		**(19,074)**	(55,383)
Attributable to:			
Owners of the parent		**(21,232)**	(57,956)
Non-controlling interests		**2,158**	2,573
		(19,074)	(55,383)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	*9*	**(2.09)**	(5.70)
– Diluted (HK cents)	*9*	**(2.09)**	(5.70)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

	2021	2020
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(19,074)**	(55,383)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**42,810**	62,520
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**23,736**	7,137
Attributable to:		
Owners of the parent	**20,830**	3,039
Non-controlling interests	**2,906**	4,098
	23,736	7,137

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	**2021** **HK$'000**	2020 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**924,202**	886,363
Right-of-use assets		**689,441**	760,951
Investment properties		**25,100**	25,100
Goodwill		**40,153**	39,556
Other intangible asset		**–**	–
Investments in associates		**13,947**	8,378
Deferred tax assets		**123,166**	112,583
Rental deposits		**72,497**	74,393
Deposits for purchases of items of property, plant and equipment		**23,883**	84,878
Total non-current assets		**1,912,389**	1,992,202
CURRENT ASSETS			
Inventories		**151,450**	163,272
Trade receivables	*10*	**57,437**	26,469
Prepayments, deposits and other receivables		**153,284**	169,510
Tax recoverable		**2,315**	11,826
Pledged deposits		**15,989**	15,052
Restricted cash		**–**	4,344
Cash and cash equivalents		**457,925**	561,243
Total current assets		**838,400**	951,716
CURRENT LIABILITIES			
Trade payables	*11*	**124,154**	91,557
Other payables and accruals		**241,533**	212,570
Interest-bearing bank borrowings		**161,667**	272,500
Lease liabilities		**200,870**	215,610
Tax payable		**4,056**	5,024
Total current liabilities		**732,280**	797,261
NET CURRENT ASSETS		**106,120**	154,455
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,018,509**	2,146,657

	Notes	**2021**	2020
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**13,069**	14,028
Lease liabilities		**439,327**	518,321
Deferred tax liabilities		**19,902**	19,469
Total non-current liabilities		**472,298**	551,818
Net assets		**1,546,211**	1,594,839
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,635**	101,661
Reserves		**1,426,991**	1,470,576
		1,528,626	1,572,237
Non-controlling interests		**17,585**	22,602
Total equity		**1,546,211**	1,594,839

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.

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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendments to HKFRS 16	*Covid-19 Related Rent Concession beyond 30 June 2021 (early adopted)*

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

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

As at 31 December 2021, the Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("**HIBOR**"). The Group expects HIBOR will continue to exist and there is no impact on the Group's HIBOR-based borrowings.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK$19,681,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2021. There was no impact on the opening balance of equity as at 1 January 2021.

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 2021 and 2020 and certain non-current asset information as at 31 December 2021 and 2020 by geographic area.

(a) Revenue from external customers

	2021	2020
	HK$'000	*HK$'000*
Hong Kong	**1,492,851**	1,265,392
Mainland China	**1,343,247**	1,123,085
	2,836,098	2,388,477

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

(b) Non-current assets

	2021	2020
	HK$'000	*HK$'000*
Hong Kong	**626,656**	683,318
Mainland China	**1,090,070**	1,121,908
	1,716,726	1,805,226

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:

	2021	2020
	HK$'000	*HK$'000*
Restaurant and bakery operations	**2,476,295**	2,040,420
Sale of food and other items	**233,481**	253,976
Poultry farm operations	**126,322**	94,081
	2,836,098	2,388,477

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

	2021	2020
	HK$'000	*HK$'000*
Bank interest income	**9,665**	10,603
Government grants	**32,371**	166,127
Gross rental income	**505**	555
Sponsorship income	**1,479**	1,535
Gain on disposal of items of property, plant and equipment, net	**1**	8,274
Gain on termination of leases	**6,990**	17,869
Gain on modification of a lease	**–**	145
Foreign exchange differences, net	**1,227**	1,902
Others	**13,612**	6,490
	65,850	213,500

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2021	2020
	HK$'000	*HK$'000*
Interest on bank loans	**3,233**	4,066
Interest on lease liabilities	**27,470**	32,855
	30,703	36,921

6. LOSS BEFORE TAX

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

	2021 *HK$'000*	2020 *HK$'000*
Cost of inventories sold	**1,011,030**	825,976
Depreciation of property, plant and equipment*	**164,402**	174,849
Depreciation of right-of-use assets*	**238,809**	269,478
Employee benefit expense* (including directors' remuneration):		
Salaries and bonuses	**754,987**	722,734
Retirement benefits scheme contributions (defined contribution schemes)	**58,721**	34,437
	813,708	757,171
Loss on disposal of an investment property	**–**	100
Impairment of trade receivables, net	**128**	310
Impairment of items of property, plant and equipment	**2,030**	7,204
Impairment of right-of-use assets	**9,207**	12,016
Impairment of other receivable	**–**	2,702
Write-off of items of property, plant and equipment	**2,649**	2,883
Reversal of unutilised provision	**(4,100)**	–
Provision for onerous contracts	**1,235**	2,678

* The cost of sales for the year ended 31 December 2021 amounting to HK$2,613,079,000 (2020: HK $2,356,715,000) included depreciation of items of property, plant and equipment of HK$157,090,000 (2020: HK$164,807,000), depreciation of right-of-use assets of HK$238,627,000 (2020: HK$269,269,000), employee benefit expense of HK$769,099,000 (2020: HK$669,236,000).

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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 (2020: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2021 *HK$'000*	2020 *HK$'000*
Current – Hong Kong		
Charge for the year	**3,903**	865
Overprovision in prior years	**(120)**	(384)
Current – Mainland China	**5,943**	6,202
Deferred	**(8,757)**	(23,717)
Total tax charge/(credit) for the year	**969**	(17,034)

8. DIVIDENDS

	2021	2020
	HK$000	*HK$'000*
Dividends recognized as distribution during the year:		
2019 final dividend – HK3.50 cents per ordinary share	**–**	35,581
2020 final dividend – HK3.00 cents per ordinary share	**30,490**	–
2021 interim dividend – HK3.00 cents per ordinary share	**30,490**	–
	60,980	35,581
Dividends proposed after the end of the reporting period:		
2020 final dividend – HK3.00 cents per ordinary share	**–**	30,490
2021 final dividend – HK3.00 cents per ordinary share	**30,430**	–
	30,430	30,490

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 1,016,433,082 (2020: 1,016,576,491) 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:

	2021	2020
	HK$'000	*HK$'000*
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	**(21,232)**	(57,956)

	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**1,016,433,082**	1,016,576,491

10. TRADE RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Trade receivables	**61,252**	30,156
Impairment	**(3,815)**	(3,687)
	57,437	26,469

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:

	2021	2020
	HK$'000	*HK$'000*
Within 1 month	**42,466**	20,157
1 to 3 months	**14,648**	5,204
Over 3 months	**323**	1,108
	57,437	26,469

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:

	2021	2020
	HK$'000	*HK$'000*
Within 1 month	**111,686**	79,743
1 to 2 months	**6,309**	3,399
2 to 3 months	**738**	2,216
Over 3 months	**5,421**	6,199
	124,154	91,557

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

OTHER INFORMATION

Dividend

In acknowledging continuous support from the Company's shareholders, the Directors have declared the payment of a final dividend of HK3.00 cents per ordinary share in respect of the year ended 31 December 2021, payable on 22 June 2022 to shareholders whose names appear on the register of member of the Company on 9 June 2022.

Closure of Register of Members

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

(i) From Friday, 27 May 2022 to Thursday, 2 June 2022, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2021 Annual General Meeting. In order to be eligible to attend and vote at the 2021 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 Thursday, 26 May 2022; and

(ii) On Friday, 10 June 2022, 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 Thursday, 9 June 2022.

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 2021, the Company has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and complied with all applicable code provisions under the Code, save and except for the deviation from the code provision A.2.1 of the Code. Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("**CEO**") should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision A.2.1, i.e., the roles of the Chairman and CEO have not been separated. Considering that Mr. Chung Wai Ping has been operating and managing the Group since its incorporation, the Board believes that it is in the best interest of the Group to have Mr. Chung Wai Ping taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from code provision A.2.1 is appropriate in such circumstance.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors have complied with the required standards as set forth in the Model Code throughout the year ended 31 December 2021.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2021, the Company has repurchased a total of 2,000,000 shares on the Stock Exchange. The repurchased shares were subsequently cancelled by the Company in January 2022. Details of the repurchase are disclosed as follows:

Months of the repurchases	Total Number of Shares Repurchased	Repurchase Price Per Share	
		Highest	Lowest
November	687,000	HK$0.89	HK$0.88
December	1,313,000	HK$0.91	HK$0.87

Saved as disclosed above, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period.

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 2021 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, consolidated statement of profit or loss, consolidated statement of other comprehensive income and the related notes thereto for the year ended 31 December 2021 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 2021. 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 2021 Annual General Meeting of the Company will be held on Thursday, 2 June 2022. Notice of the 2021 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, 30 March 2022

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