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 2023

HIGHLIGHTS

	For the year ended 31 December		Increase/ (decrease) in
	2023	2022	**%**
	(HK$'000)	*(HK$'000)*	
Revenue	**2,949,362**	2,401,849	22.8
Profit/(loss) after tax	**85,456**	(137,019)	162.4
Profit/(loss) attributable to owners of the parent	**73,655**	(143,138)	151.5
	HK cents	*HK cents*	
Basic profit/(loss) per share	**7.26**	(14.11)	151.5
Proposed final dividend per share	**3.00**	3.00	–
No. of restaurants and bakery outlets			
at 31 December	**99**	122	(18.9)
at announcement date	**96**	120	(20.0)

* 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 2023.

The year 2023 will go down as the beginning of the recovery of Hong Kong, Mainland China and the rest of the world since the outbreak of COVID-19. While much was anticipated with the lifting of pandemic-related restrictions, persistently high inflation in many countries, rising interest rates and ongoing geopolitical tensions were among the factors that undermined the global economic recovery, in turn dampening consumption sentiments. In response, our management team implemented a series of strategies, which included refurbishing restaurants to bolster the brand equity of Tao Heung; establishing new brands to diversify our sources of restaurant income; implementing cost controls in a prudent manner; and leveraging automation-related technologies to enhance the productivity and efficiency of our logistics centres. Through these measures, we were able to restore business growth and realise encouraging results.

Hong Kong's restaurant operation achieved significant growth during the year, most notably in daytime sessions and from banquet business. Dinner sessions, however, were comparatively weaker, possibly due to the changing habits of Hong Kong citizens having dinner earlier during COVID-19. In addition, our diversified brand strategy has proven effective, while our OEM business has also grown satisfactorily, with both revenue and number of clients continuously increasing.

Recovery of our Mainland China business was slower compared to Hong Kong, partly due to the impact of restaurant network integration and closure of underperforming branches. Although performance of our chilled and packaged food segment slowed, we believe with continuous quality improvement, product diversification, and expansion of sales channels both domestically and internationally, the business segment has great potential for development.

Looking ahead to 2024, we anticipate the new year to be no less difficult. In addition to the factors already noted, the food and beverage industry will also encounter challenges in the form of labour shortages, high ingredient prices, exorbitant rents, etc. all of which will continue to impede business performance. We will adjust our business models accordingly, devise strategies to enhance the Group's products mix, and control costs strategically. We believe that the desire to dine out remains, which, coupled with the relatively stable and vibrant business environments in Hong Kong and Mainland China, bode well for the long-term development of the Group.

Over the years, Tao Heung has not only focused on operating a sustainable Chinese cuisine business, but has also given priority to the protection and advancement of society. In 2023, we cooperated with different social welfare organisations and sponsored charity events to support our community, including inviting secondary schools and service centres to visit the Tao Heung Museum of Food Culture during Chinese New Year. Invitations were also extended to underprivileged families, and dim sum workshops were organised to add to the meaningfulness of the occasion. During the Dragon Boat Festival and Mid-Autumn Festival, we offered our members the opportunity to make rice dumplings and mooncakes together. Recognising the importance of also helping the elderly, we donated packaged snacks via local NGOs on a regular basis. It is worth noting that Tao Heung was honoured with two corporate awards in 2023 in recognition of its exceptional performance in marketing strategy and brand image. Specifically, they include the Market Leadership Award 2022 by the Hong Kong Institute of Marketing, and the 2022 QF in Action Achiever (Partner) recognition by the Qualifications Framework in Hong Kong ("**HKQF**").

Appreciation

In bidding farewell to 2023, the world will undoubtedly hope to also bid farewell to the challenges brought by the COVID-19 pandemic, and that steps toward recovery have commenced. Despite the tough economic and environmental conditions of the recent past, it has been truly rewarding to witness the resilience of our business. Such achievements would not be possible without the dedication and effort of our staff. It is through their commitment and diligence that the Group has been able to navigate through these unprecedented times, hence are deserving of the highest praise. Certainly, our heartfelt gratitude must also be extended to our shareholders and stakeholders for their unwavering support for the management team and the Group. We look forward to continuing this development journey together and achieving even greater successes in the future.

Chung Wai Ping
Chairman and Chief Executive Officer

Hong Kong
27 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2023. During the latest financial year, the global economy grew by approximately 3.1%[1], according to Organisation for Economic Co-operation and Development (OECD). At the same time, Hong Kong's gross domestic product (GDP) increased by 3.2% in real terms over 2022[2], based on advance estimates by the Census and Statistics Department, driven by the rise in visitors from around the world, rise in exports and personal expenditure, and increase in overall investment expenditure. Meanwhile, the National Bureau of Statistics reported GDP growth of 5.2%[3] in Mainland China. The aforementioned figures therefore suggest that economic growth in Hong Kong and Mainland China outperformed other regions. During the year, the Group duly devised strategies in step with market trends. This has included leveraging its competitive advantages in the markets, such as effective marketing campaigns, stringent cost control and comprehensive logistics support, to successfully convert opportunities into profits.

Financial Results

The Group has recorded total revenue of HK$2,949.4 million (2022: HK$2,401.8 million) for the year, which represents a year-on-year increase of 22.8%. Gross profit margin (defined as total revenue less cost of inventories sold divided by total revenue) edged upwards to 65.8% (2022: 62.4%), with profit attributable to owners of the parent achieving a turnaround at HK$73.7 million (2022: loss of HK$143.1 million).

The Board has proposed a final dividend of HK3.0 cents per share for the year ended 31 December 2023 (2022: HK3.0 cents).

Hong Kong Operations

The Hong Kong operations contributed revenue of HK$1,783.4 million (2022: HK$1,307.6 million) for the year, representing a year-on-year increase of 36.4%. Earnings before interest, tax, depreciation and amortisation (EBITDA) rose 76.3% year-on-year to HK$321.0 million (2022: HK$182.1 million), with profit attributable to owners of the parent at HK$57.8 million (2022: loss of HK$41.3 million).

The encouraging performance of the Hong Kong operations reflects the management's ability to pay attention to market dynamics and gauge consumers attitudes, creating a portfolio of Hong Kong restaurant brands that are in step with current developments and dining trends, and ensuring that the current business model is sound and sustainable. A case in point is "Chung's House (鍾菜館)" which is a diversified brand that has successfully attracted a more premium of customers segment. Its growth has been quite notable, with sales and profitability up by 50% compared with pre-COVID. This can

[1] https://www.oecd.org/economic-outlook/february-2024/

[2] https://www.censtatd.gov.hk/en/press_release_detail.html?id=5380

[3] https://www.stats.gov.cn/sj/zxfb/202401/t20240118_1946691.html

principally be attributed to the brand's ability to attract customers with high consumption power and those who appreciate quality food and a sophisticated ambience. In view of Chung's House favourable performance, the Group plans to continue developing this brand in the future. Another brand that has delivered good results is "Grand Ballroom (潮囍薈)", which was launched in early 2023. Specialising in wedding banquets and corporate events, its excellent location and uniquely designed venue has successfully attracted over 100 couples less than one year of operation. Additionally, many well-known organisations and corporations have chosen Grand Ballroom for holding their events. Another new brand that has achieved encouraging results is "Boat One (壹號漁船)", launched in the fourth quarter of 2023. Presently comprising two restaurants, both have indoor fishponds that leave lasting impressions on patrons. Moreover, the restaurants are divided into two areas, one side offering all-you-can-eat seafood hotpots and the other serving exquisite dim sum and small dishes. Despite having opened for only three months, the number of patrons has been increasing steadily, the majority of whom are aged between 25 and 40. Another brand that has performed increasingly well is "Hak Ka Hut (客家好棧)" which has contributed to the Group's overall profitability.

COVID-19 has altered the food culture and consumption pattern of Hong Kong people. Consumers have become more price conscious, selective and demanding about their products and services. Consequently, the Group offered various value-for-money promotion campaigns, such as the "one-dollar" dish series, special banquet menu, dinner combo and seasonal seafood menu, all of which have successfully helped to boost sales revenue.

Given that the cost of labour and food ingredients have remained generally high in Hong Kong, such expenses have presented stiff challenges to the food and beverage (F&B) industry as a whole. For Tao Heung, it has managed to keep ingredient costs at a stable level, yet staff costs were still a major challenge due to serious labour shortage. The Group will continue to make every effort to rein in expenses, all the while exercising utmost caution.

As the manpower shortage and rising labour costs look set to be long-term challenges, many businesses have elected to outsource their food processing activities to third-party providers. Tao Heung has been able to capitalise on this development via its OEM operation, which experienced an uptick in business in 2023. Previously, the operation mainly focused on Chinese cuisine, but the Group has since introduced a new line of Western cuisine. Tao Heung has also proactively conducted research and development to better address the needs of its increasingly diverse makeup of customers. In addition to its established customer base, mainly comprising restaurants, hotels, supermarkets, convenience stores, smaller shops and airline companies, this base has been expanded to include catering groups and bakery chain stores.

As at 31 December 2023, the Group had a total of 43 (2022: 45) restaurants in Hong Kong. As for Tai Cheong bakeries, the Group operated a total of six in Hong Kong (2022: eight) and 11 in Singapore (2022: 12) as at 31 December 2023. The Group elected to reduce the number of Tai Cheong bakeries in Hong Kong so that greater resources could be utilised to further develop branches that have higher profit potential as well as those situated in superior locations. On the products front, Tai Cheong egg tarts and other branded products have proved to be popular among both overseas tourists and Hong Kong citizens alike, helping to improve overall same-store sales performance during the year. In

Singapore, profitability of Tai Cheong has not been as favourable as in the past. This was mainly due to the adverse local economic conditions, with the country experiencing a slowdown in GDP growth and inflation at 4.8%. Amid this challenging economic environment, the Group presently has no plans to open new branches there. However, it does intend to promote the Tai Cheong brand in other regional markets through collaboration with international food and beverage operators.

Mainland China Operations

The Mainland China operations reported revenue of HK$1,165.9 million (2022: HK$1,094.2 million) for the year, or an increase of 6.5% over 2022. EBITDA rose 177.1% year-on-year to HK$189.1 million (2022: HK$68.3 million), and profit attributable to owners of the parent totalled HK$15.9 million (2022: loss of HK$101.8 million). If excluding the compensation received for the expropriation of poultry farms land of HK$27.2 million, EBITDA would be HK$166.7 million (2022: HK$68.3 million), while loss attributable to owners would be HK$6.5 million (2022: loss of HK$101.8 million).

Revenue increase experienced by the Mainland China operation was not too substantial, this was mainly because of the closure of several restaurants during the year. However, Tao Heung has developed a series of banquet menus and conducted relevant decoration work which has led to an increase of between 30% and 40% in banquet sales. Furthermore, we continued to optimize customer service quality through intensive training programs which has successfully attracted more customer traffic.

In terms of marketing promotions, apart from holding popular promotional activities, Tao Heung has also employed targeted strategies. This has included tailoring specific dishes and meal packages to appeal to regional customer groups in Mainland China. In addition, the Group has sought to attract the younger generation, especially young professionals or those who enjoy nightlife, by introducing a late-night dim sum buffet. It has also utilised social media platforms such as XiaoHongShu (小紅書), WeChat and Dianping.com (大眾點評) for promotions, which has yielded highly positive results.

As at 31 December 2023, the Group had a total of 39 restaurants (2022: 45) in Mainland China. Branch closures were conducted following careful consideration for the development potential of each restaurant and the number of restaurants in each region, with adjustments made accordingly.

As the side effects of COVID-19 gradually receded, more people began engaging in outdoor pursuits, including dining and other activities. Consequently, the chilled and packaged food segment experienced a noticeable sales decline. Nevertheless, the growth of the restaurant business was sufficiently significant to offset this unfavourable trend. Regarding the Group's online chilled and packaged food segment, sales are primarily facilitated through popular e-commerce platforms such as TikTok (抖音), Tmall (天貓), JD.com (京東), and Ping Duo Duo (拼多多). For offline sales, it is principally conducted via various types of distributorships. The management believes the chilled and packaged food segment has substantial potential which the Group intends to explore overseas markets in the coming years.

Peripheral Businesses

The performance of the Group's self-owned supermarket business has weakened compared with the same period last year. Although performance was less satisfactory, the supermarket business is conducive to attracting new customers or strengthen connections with existing ones, thus reinforcing Tao Heung's overall customer base.

In order to offer better shopping experiences to customers, the Group has revised certain in-store product displays, so as to also entice customers to explore a wider range of products. Additionally, Tao Heung has introduced imported products from other regions to build customer loyalty.

Financial Resources and Liquidity

As at 31 December 2023, the total assets decreased by 3.7% to approximately HK$2,188.8 million (2022: approximately HK$2,273.0 million) while the total equity increased by 0.9% to approximately HK$1,254.3 million (2022: approximately HK$1,243.1 million). As at 31 December 2023, the Group's total current assets and current liabilities were approximately HK$649.9 million (2022: approximately HK$582.8 million) and approximately HK$576.7 million (2022: approximately HK$661.1 million), respectively, while the current ratio calculated by dividing the total current assets over the total current liabilities was approximately 1.13 (2022: approximately 0.88). 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 2023, the Group had cash and cash equivalents amounted to approximately HK$345.1 million (2022: approximately HK$251.9 million). After deducting the total interest-bearing bank borrowings of approximately HK$85.7 million (2022: approximately HK$109.8 million), the Group had a net cash surplus position of approximately HK$259.4 million (2022: approximately HK$142.1 million). As at 31 December 2023, the Group's total interest-bearing bank borrowings were decreased to approximately HK$85.7 million (2022: approximately HK$109.8 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 7.0% (2022: 9.0%). 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.

Prospects

According to The World Bank, global economic growth is expected to moderate in 2024, forecasted at 2.4%. Besides the lacklustre outlook, the F&B industry must also contend with the change in consumer sentiment, shopping patterns, demands and motivations post-COVID. Tao Heung will therefore monitor market developments closely, devise relevant strategies in a timely manner, and maintain a cautiously optimistic attitude in managing the performance of the Hong Kong and Mainland China businesses in 2024.

In Hong Kong, the city's integration with Mainland China and connectivity with the world has allowed citizens to satisfy their desire for travelling. Moreover, many Hong Kong people also enjoy visiting the Greater Bay Area and cities in Mainland China for consumption and tourism, which has been to the detriment of the Hong Kong catering industry. In view of this, the Group plans to enhance the quality of services to cope with market competition. This will include improving the dining experience by carefully analysing consumption patterns, preferences, and motivations of each customer segment through detailed surveys. Based on this analysis, the management will devise relevant strategies and develop appropriate service packages. In addition, greater resources will be allocated to train employees as well as to implement reward programmes for enhancing the quality of service. Furthermore, the Group will adopt innovative strategies to attract customers, such as creating cost-effective products and exploring partnerships for introducing different marketing and promotion campaigns. As one of Tao Heung's greatest strengths is its logistical support, the management will continue to allocate resources to bolster the Group's logistics centre. This will include purchasing machinery and hiring professionals to conduct research and development and improve production technologies, as well as to develop more new products to enhance Tao Heung's competitiveness in the Hong Kong market. Presently, the Group's OEM business is diverse, and is able to benefit from the shortage of labour, as reflected by the relatively high demand for its service. Tao Heung anticipates further growth in revenue from the OEM business in 2024.

Regarding Mainland China, the management recognises the tremendous potential of the market, when it is able to capitalise on Chinese social media platforms. It will therefore continue to leverage these platforms to both expand its brand exposure and promote business development. Besides utilising the current social media channels, it will also strive to explore more diverse channels and establish ties with different customers and partners. As for developing the chilled and packaged food segment specifically, the Group will not only penetrate other cities in Mainland China via various channels, but also promote its products in Southeast Asia and other parts of the world.

In view of the numerous variables that may affect the economic outlook of Hong Kong and Mainland China in 2024, the management will adhere to a cautious development strategy. Currently, it will not consider expanding the restaurant network, though if an opportunity should arise, it will only open smaller size restaurants in Hong Kong. This is because smaller size operations generally involve lower investment costs and generate faster returns. In addition, the management will look for other business opportunities and preserve the Group's financial stability as a whole.

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 2023, together with the comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	Notes	**2023** ***HK$'000***	2022 *HK$'000*
REVENUE	*4*	**2,949,362**	2,401,849
Cost of sales		**(2,623,696)**	(2,391,379)
Gross profit		**325,666**	10,470
Other income and gains, net	*4*	**85,551**	137,295
Selling and distribution expenses		**(74,854)**	(96,498)
Administrative expenses		**(165,492)**	(149,720)
Other expenses		**(28,479)**	(34,391)
Finance costs	*5*	**(24,798)**	(27,024)
Share of profits of associates		**2,151**	2,525
PROFIT/(LOSS) BEFORE TAX	*6*	**119,745**	(157,343)
Income tax credit/(expense)	*7*	**(34,289)**	20,324
PROFIT/(LOSS) FOR THE YEAR		**85,456**	(137,019)
Attributable to:			
Owners of the parent		**73,655**	(143,138)
Non-controlling interests		**11,801**	6,119
		85,456	(137,019)
PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	*9*	**7.26**	(14.11)
– Diluted (HK cents)	*9*	**7.26**	(14.11)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023	2022
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**85,456**	(137,019)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(1,443)**	(105,210)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**84,013**	(242,229)
Attributable to:		
Owners of the parent	**72,339**	(246,211)
Non-controlling interests	**11,674**	3,982
	84,013	(242,229)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**732,114**	792,835
Right-of-use assets		**538,194**	599,930
Investment properties		**25,100**	25,100
Goodwill		**36,557**	38,492
Other intangible asset		**–**	–
Investments in associates		**13,025**	12,302
Deferred tax assets		**121,694**	141,441
Deposits and other receivable		**68,606**	63,363
Deposits for purchases of items of property, plant and equipment		**3,642**	16,723
Total non-current assets		**1,538,932**	1,690,186
CURRENT ASSETS			
Inventories		**132,955**	126,358
Trade receivables	*10*	**55,980**	46,640
Prepayments, deposits and other receivables		**100,855**	143,338
Tax recoverable		**–**	87
Pledged deposits		**14,951**	14,515
Cash and cash equivalents		**345,146**	251,854
Total current assets		**649,887**	582,792
CURRENT LIABILITIES			
Trade payables	*11*	**133,093**	127,335
Other payables and accruals		**221,919**	230,040
Interest-bearing bank borrowings		**37,756**	109,833
Lease liabilities		**176,196**	190,438
Tax payable		**7,694**	3,415
Total current liabilities		**576,658**	661,061
NET CURRENT ASSETS/(LIABILITIES)		**73,229**	(78,269)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,612,161**	1,611,917

	Notes	2023 HK$'000	2022 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals		**9,609**	12,374
Interest-bearing bank borrowings		**47,951**	–
Lease liabilities		**281,907**	339,478
Deferred tax liabilities		**18,439**	16,943
Total non-current liabilities		**357,906**	368,795
Net assets		**1,254,255**	1,243,122
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,435**	101,435
Reserves		**1,131,599**	1,120,120
		1,233,034	1,221,555
Non-controlling interests		**21,221**	21,567
Total equity		**1,254,255**	1,243,122

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 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 new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	*Insurance Contracts*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement *2 Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS *12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have any significant impact on the financial position or performance of the Group upon initial application.

(d) Amendments to HKAS 12 *International Tax Reform — Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to 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 2023 and 2022 and certain non-current asset information as at 31 December 2023 and 2022 by geographic area.

(a) *Revenue from external customers*

	2023	2022
	HK$'000	*HK$'000*
Hong Kong	**1,783,447**	1,307,605
Mainland China	**1,165,915**	1,094,244
	2,949,362	2,401,849

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

(b) *Non-current assets*

	2023	2022
	HK$'000	*HK$'000*
Hong Kong	**548,147**	610,862
Mainland China	**800,485**	874,520
	1,348,632	1,485,382

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:

	2023	2022
	HK$'000	*HK$'000*
Restaurant and bakery operations	**2,616,895**	2,011,308
Sale of food and other items	**198,708**	238,777
Poultry farm operations	**133,759**	151,764
	2,949,362	2,401,849

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

	2023	2022
	HK$'000	*HK$'000*
Bank interest income	**6,861**	7,998
Compensation received	**35,364**	–
Government grants	**3,822**	84,721
Gross rental income	**1,216**	464
Sponsorship income	**1,114**	1,267
Gain on termination of leases	**12,750**	19,331
Foreign exchange differences, net	**3,167**	–
Others	**21,257**	23,514
	85,551	137,295

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2023	2022
	HK$'000	*HK$'000*
Interest on bank loans	**5,950**	6,082
Interest on lease liabilities	**18,848**	20,942
	24,798	27,024

6. PROFIT/(LOSS) BEFORE TAX

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

	2023	2022
	HK$'000	*HK$'000*
Cost of inventories sold	**1,007,710**	904,046
Depreciation of property, plant and equipment*	**150,547**	159,839
Depreciation of right-of-use assets*	**215,010**	220,816
Employee benefit expense* (including directors' remuneration):		
Salaries and bonuses	**795,674**	707,172
Retirement benefits scheme contributions (defined contribution schemes)	**55,559**	56,363
	851,233	763,535
Foreign exchange difference, net	**(3,167)**	9,244
Reversal of impairment of trade receivables, net	**(585)**	(1,364)
Reversal of impairment of other receivable	**(1,136)**	–
Impairment of items of property, plant and equipment	**4,375**	5,380
Impairment of right-of-use assets	**6,766**	9,232
Impairment of goodwill	**1,879**	–
Write-off of items of property, plant and equipment	**17,180**	11,874

* The cost of sales for the year ended 31 December 2023 amounting to HK$2,623,696,000 (2022: HK$2,391,379,000) included depreciation of property, plant and equipment of HK$141,569,000 (2022: HK$151,268,000), depreciation of right-of-use assets of HK$214,828,000 (2022: HK$220,519,000), employee benefit expense of HK$763,564,000 (2022: HK$674,932,000) and lease payments not included in the measurement of lease liabilities of HK$13,944,000 (2022: HK$8,868,000). The cost of sales for the year ended 31 December 2022 also included Covid-19 related rent concessions from lessors of HK$26,147,000.

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 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 (2022: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2023	2022
	HK$'000	*HK$'000*
Current – Hong Kong	**7,785**	3,295
Current – Mainland China	**5,224**	2,292
Deferred	**21,280**	(25,911)
Total tax charge/(credit) for the year	**34,289**	(20,324)

8. DIVIDENDS

	2023	2022
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2021 final dividend – HK3.00 cents per ordinary share	**–**	30,430
2022 Interim dividend – HK3.00 cents per ordinary share	**–**	30,430
2022 final dividend – HK3.00 cents per ordinary share	**30,430**	–
2023 interim dividend – HK3.00 cents per ordinary share	**30,430**	–
	60,860	60,860
Dividends proposed after the end of the reporting period:		
2022 final dividend – HK3.00 cents per ordinary share	**–**	30,430
2023 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. PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic profit/(loss) per share amount is based on the profit/(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 (2022: 1,014,348,000) in issue during the year.

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

The calculations of basic and diluted profit/(loss) per share are based on:

	2023	2022
	HK$'000	*HK$'000*
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted profit/(loss) per share calculation	**73,655**	(143,138)

	Number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted profit/(loss) per share calculation	**1,014,348,000**	1,014,348,000

10. TRADE RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Trade receivables	**57,846**	49,091
Impairment	**(1,866)**	(2,451)
	55,980	46,640

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:

	2023	2022
	HK$'000	*HK$'000*
Within 1 month	**40,240**	34,165
1 to 3 months	**15,090**	12,195
Over 3 months	**650**	280
	55,980	46,640

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:

	2023	2022
	HK$'000	*HK$'000*
Within 1 month	**90,152**	88,589
1 to 2 months	**34,907**	32,935
2 to 3 months	**2,055**	446
Over 3 months	**5,979**	5,365
	133,093	127,335

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 2023 (2022: 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 30 May 2024. Upon board's approval, the proposed dividend will be paid on 20 June 2024 to shareholders whose names shall appear on the Register of Members of the Company on 6 June 2024.

Closure of Register of Members

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

(i) From Thursday, 23 May 2024 to Thursday, 30 May 2024, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2023 Annual General Meeting. In order to be eligible to attend and vote at the 2023 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, 22 May 2024; and

(ii) On Thursday, 6 June 2024, 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, 5 June 2024.

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 2023, the Company has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix C1 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 C.2.1 of the Code. Under the code provision C.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 C.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 C.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 C3 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 2023.

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 C1 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 2023 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 2023, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 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 2023. 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 2023 Annual General Meeting of the Company will be held on Thursday, 30 May 2024. Notice of the 2023 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
Chung Wai Ping
Chairman and Chief Executive Officer

Hong Kong, 27 March 2024

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.