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Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

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Finance for Business Managers

Assignment 1 (Total: 5,489 words)
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Executive Summary

Tao Heung Holdings Ltd is one of the largest Chinese cuisine brand in Hong Kong. It will be their 30th Anniversary this year, with a core business in Hong Kong and Mainland China on restaurants, bakery, food and catering service, poultry farm and sale of food businesses. We will look into its business and competitors included Fulum Group Holdings Ltd and Dragon King Holdings Ltd.

Firstly, we will deep dive Tao Heung's company background, its existing business networking and strategic then we will go further to Hong Kong 3 listed Chinese restaurant companies in Hong Kong for comparison. Hence, we will talk about their existing business overview, impact of Chinese restaurants, key competitors' status and their development plus the challenges for Tao Heung in Hong Kong.

In chapter 2, we will use the information from company's annual report through financial ratios to analyse the Group business and activities over the past. By benchmarking other competitor's and knowing their company's financial condition to see whether improvement are needed.

In chapter 3, we will look into Tao Heung's corporate governance issue. Firstly, to study the Group's core team, internal control, business transparency and the credit risk management for changes, improving the overall performance and further to attract new investors.

In chapter 4 and 5, we will propose a new project to Tao Heung to invest and expand their existing food preparation business in Hong Kong. Showing the investment value by simulate with calculation through cash flow, net present value, their returns from investment. We will analyse 3 different funding methods and recommend the best benefit to the Group.

In chapter 6 for the recommendation and audit program section, we will give out the best recommendation and tracking, propose the purpose and use of the audit plan on cash flow statement, inventory checks and operation governance.

And finally for conclusion, we will recommend Tao Heung to be more proactive to new business trend to be more diversify, improve the transparency in corporate governance and increase the aggressiveness on using cash to generate more profit to break through the business slowdown.

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1 Introduction

1.1 Company Background

The frequent dine out at restaurants and demand for high-quality ingredients are main practices from Guangdong, China. And together with “Yum Cha” culture which often affect our real life in Cantonese-speaking regions such as Guangdong, Guangxi, Hong Kong and Macau. With small portions of steamed, pan-fried or deep-fried called “Dim Sum”, together with Chinese tea “Yum Cha” as a gathering with family or doing celebrations made Tao Heung Group as leader of premier Chinese restaurants in Hong Kong and Canton.

Tao Heung Group has built its business on this dining culture, taking the new and exciting direction to local markets. The Group has introduced innovative marketing strategies, modern management and quality standards over the years, to provide high quality food and restaurant service to customers.

Since 1991, the establishment of their first restaurant at Sai Wan doing Chinese Seafood Cuisine & Hotpot and until now, Tao Heung has built their network of 128 restaurants in Hong Kong and Southern China for middle-end diners, included 18 key brands with 6,005 employees under the Tao Heung Group. Each brand represents a unique dining style and targets a specific clientele or dining preference. As such, they can profitably co-exist in popular dining areas. Tao Heung Group's on different brands have always been in the public mind, with its speciality and uniqueness they provide, eg: “no MSG, no artificial colour ingredient” promise in Chung’s Cuisine restaurant, etc.

In 2003, they had their own centralized food processing and logistics centre supported by laboratory testing facilities in Tai Po then relocated to Fo Tan, Hong Kong. And in 2007 across the border in Mainland China, they had a centre which provided a bigger scale than Tai Po Centre. At the same year in June, Tao Heung Group has listed in the Main Board of the Stock Exchange of Hong Kong Limited with the Stock Code: 573.

In 1996, their pioneer was "One Dollar Chicken", Chinese name as: 「一蚊雞」, which made them gone through the 1997 Asian financial crisis. The spirit for the Group is to fight, endure, and be innovative, and increase their popularity to the public.

Going forward to their 30th Anniversary in 2021 and Hong Kong will still be their core business, continue to consolidate their network, and expand its brand to cater for higher income customers. Also, they will direct and exploding more to Mainland China cities, particularity in the Central and Western China, to its diversity on restaurants, bakery, food and catering service, poultry farm and sale of food businesses and achieve sustainable growth in the long-term run and continue it corporate missions to enhance the image of Chinese catering and share the Value for Money with the public at large (Tao Heung Holdings Ltd, 2020).

1.2 IPO History and Marketing Capitalization

Tao Heung Group listed on the main board of the Hong Kong Stock Exchange on 29th June, 2007, one of the Chinese restaurant in Hong Kong. They had issued 124 million new shares at an offer price of HK$3.18 per share, of which 90% placed internationally and 10% offered for public, with a maximum of 397 million Hong Kong dollars (finance.sina.com.cn, 2007). Their strength and opportunities in 2007 was operating 42 local Chinese restaurants under different Chinese cuisine brands and 7 in Shenzhen and Guangzhou in Southern China with total of 5,612 employees' included a centralized food processing and logistics centre in Fo Tan. They are able to supply food ingredients and allowing its restaurants to focus on the dish-preparation in the centres, enhance the restaurant floor area to save space for storage and to increase the food processing by control the food quality and standard (Li, 2007).

Compare to current, as of 31 December 2020, the Group is now worth HK$ 1,024 million, they have 6,005 employees in total with 2 food processing and logistics centers in Dayong, Dongguan and Fo Tan, Hong Kong which are responsible for overall procurement, food processing for both side. For restaurants, there are 46 under different brands (2019: 49 restaurants), 13 Tai Cheong bakeries (2019: 17 bakeries) and along with 8 bakeries in Singapore (2019: 4 bakeries). In China, there are 48 restaurants under different brands (2019: 46 restaurants), 21 bakeries (2019: 25 bakeries) under the Bakerz 180 brand and at least six new restaurants are planned to open in 2021 (Tao Heung Holdings Ltd, 2020).

1.3 Business Overview and Impact

The revised year had recorded total revenue of HK$2,388.5 million (2019:HK$3,905.7 million), y-o-y declined 38.8%. Gross profit margin (defined as total revenue less cost of inventories sold divided by total revenue) stood at 65.4% (2019: 66.8%). Loss attributable to equity holders of the Company was HK$58.0 million (2019: Profit of HK$125.0 million). Hong Kong continued to constitute the largest revenue contributor of the Group's business operations, accounting for 53.0% of the total revenue (2019: 61.1%), with Mainland China accounting for 47.0% (2019: 38.9%). The Board also proposed a final dividend of HK3.0 cents per share (2019: HK3.5 cents) for the year ended 31 December 2020 (Tao Heung Holdings Ltd, 2020).

Overall, economic activity remain recession, as the pandemic, social distancing and travel restrictions still existed. Global economic conditions will likely take time to recover and domestic demand is expected to improve in the period ahead. Ahead for the transitional period, the group had expanded their product options to distribution of packaged food, to seek and develop catering services in strong potential. In further, they will extend across Mainland China by way of online ordering and delivery of packaged food as well as takeaway services. In the long-term, the group would like to spread around China and potentially to develop overseas market with packaged food business.

1.4 Company Competitors

Hong Kong restaurant earnings has narrowed to 8.8% in the first quarter of 2021with HK$19.7 billion for January to March this year, compared with HK$21.6 billion in the same period last year as the 4th wave of the local epidemic receded and expenditure over the same period declined y-o-y by an estimation of 8% to HK$6.4 billion. According to the data in January y-o-y, it falls sharply by 38.7% and bounced back with a figure of 10.1% and 20.7% for February and March 2021 (info.gov.hk, 2021).

As end of 31 December 2020, Dragon King operated 10 Cantonese restaurants in Hong Kong, Macau and Shanghai, PRC under 5 self-owned brands. The Group's revenue dropped sharp by 51.3% with HK$196.0 million (2019: HK$402.3m) and recorded a loss attributable

to the owners of the Company of approximately HK$74.8 million for the year ended 31 December 2020. This is due to the outbreak of coronavirus (the "COVID-19") in Hong Kong since January 2020 including restrictions on catering business and had offset with the subsidies received from the the HKSAR Government to support the Group's operation under the outbreak of COVID-19 (Dragon King Group Holdings Limited, 2020)

For Fulum Group, they operated 71 restaurants in Hong Kong and Mainland China, including 4 restaruants in the Mainland. The Group's revenue dropped by 29.4% with HK$1,853.9 million (2019: HK$2,627.2m) and recorded a loss attributable to the owners of the Company of approximately HK$637.5 million (2019: profit 25.5m) for the year ended 31 March 2020 (Fulum Group Holdings Limited, 2020)

With similar catering business in Hong Kong, both are the major competitors of Tao Heung and during the epidemic, 87.9% of the local catering companies recorded a loss of more than 90%, and some restaurants launched "contactless delivery" services. However, uncertainty is still high. The business outlook for restaurants remained challenged, as local employment and individual incomes continued to be squeezed and inbound tourism remained in the slow-moving (Yau, 2021a).

1.5 Key Development and Challenges

In the review year, they use mobile systerms and tea trolley, which allow customers to make their fresh tea throughout their meals, in particularly helping to reduce the manpower and efforts towards breakfast, lunch and evening dine-in operations, surviving from strict social distancing measures.

The group is also expanding takeaway catering and packaged food service arising from the banning of evening dine-in for certain periods; they find strong potential promoting available for long term and this has become an increasingly income with approximately 11% of revenue during the review year for local. Further, to reach more customers in Hong Kong and Mainland China, they are seeking for online and offline channels, including 7-Eleven, HKTVMall, Tmall.com, JD.com, etc. For overseas market, they had Vietnam and next will

launch in Southeast Asia, Australia for their packaged food business and look for sustain business growth.

In response to existing business environment, the Group has sales through strategic partnerships with a number of food delivery platforms, including Deliveroo, Foodpanda and The Gulu, while it continued to remain open in the evening for takeaways in Hong Kong. Going forward, the Group will focus more in Mainland China, particularly in the Central and Western China. As for the Hong Kong market, they are planned to partner with sizable local supermarkets and online shopping platforms.

2 Financial Analysis

In this section, we will analyse the financial report of Tao Heung Holdings Ltd., by calculate their liquidity & solvency ratios, leverage positions, inventory and receivable ratios, creditor's ratio, total asset turnover, profitability measures, valuation & growth ratios and bankruptcy index for data studies from each company's financial statements (Biedron, 2020); comparing with 2 major competitors as a result finding, risk assessment and predicting their future challenges.

2.1 Liquidity & Solvency Ratios

Liquidity & Solvency ratios are to determine the company strengths and weaknesses and evaluate the overall condition of the organization in short and long run. Liquidity is to see the ability to convert its assets to cash and paying its liabilities on time. For solvency is to consider a company with long-term obligations to pay its long-term debts and interest on debts (Freshbooks, 2018).

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Current Ratio	0.70	3.44	3.44	1.19	1.27	1.52	0.30	0.52	0.71
Quick Ratio	0.53	3.05	3.17	0.99	1.05	1.27	0.25	0.45	0.63
Cash Ratio	0.47	2.91	2.79	0.92	0.97	1.17	0.20	0.39	0.45
Net Working Capital (HK$'000)	-143,767	539,849	645,580	154,455	212,315	313,227	-124,328	-77,020	-40,384
Fixed Asset to Long Term Liability Ratio	0.43	0.22	0.22	0.6	0.6	0.66	-0.53	16.68	2.03
Current Liabilities to Net Asset Ratio	0.92	0.23	0.25	0.37	0.35	0.33	-4.7	1.64	2.48
Current Liabilities to Stock Ratio	5.68	2.56	3.67	4.88	4.61	4.00	22.28	15.54	12.36

Table 1: Liquidity & Solvency Ratios
Note 1: Dragon King & Tao Heung year ended 31 Dec, 2020 and Fulum Group year ended 31 March, 2020
Source: Fulum Group, Tao Heung, Dragon King 2020-2018 Annual Report & Illustrated by Writer

Tao Heung has the better short obligations as the figures (Table 1) are close and over 1 in overall. This also shows the company has more cash than current liabilities, able to cover all short-term debt and still have enough cash remaining. However, considering to long-term although Tao Heung had a steady figure among the three. Although the current liabilities to stock ratio is over 4 (Table 1) as ratio between 1.5 and 3 are considered healthy, but the fixed asset to long term liability and current liabilities to net asset ratio is under 1 which indicate cut off expenses and pay off debt is the best way to increase the debt ratio with better creditworthiness as now Tao Heung's Debt Ratio >0.4 (Table 2) in 2020 which may consider difficulties to borrow money.

Lastly, for the year 2020, the net working capital with positive indicates the short-term funds available from current assets are more than adequate to pay for current liabilities due for payment. For Fulum Group and Dragon King due to negative, the business may not have sufficient funds available to pay for its current liabilities and to be a risk of bankruptcy that reflected in section 2.8 – Z-score with calculation.

2.2 Leverage Positions

Leverage ratio is to indicate the level of debt that a company has incurred. However, if a company can generate high returns than interest or repayment on its loans, the debt might be a useful for growth. But at the end if too much debt is a risky proposition (Bragg, 2018).

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Debt Ratio	0.72	0.22	0.23	0.46	0.47	0.29	1.41	0.93	0.73
Equity Ratio	0.28	0.78	0.77	0.54	0.53	0.71	-0.41	0.07	0.27
Debt Equity Ratio	2.53	0.28	0.30	0.85	0.87	0.42	-3.45	13.12	2.71
Equity Multiplier	3.53	1.28	1.30	1.85	1.87	1.42	-2.45	14.12	3.71
Times Interest Earned	-23.35	119.01	98.12	-0.96	5.43	49.07	-12.49	-3.30	-27.24
Cash Coverage	-20.21	366.88	256.96	-0.96	5.43	49.07	-10.17	-1.01	-17.97

Table 2: Leverage Positions
Source: Illustrated by Writer

D/E Ratio – this ratio is to calculate the weight of total debt and financial liabilities against total shareholder's equity. It is to highlight company's capital structure either toward debt or equity financing. Tao Heung show <1 (Table 2) its financial is stable due to HK$ 0.85 for every $1 (2020) of equity which funded by equity, while Dragon King and Fulum Group are showing with negative and >1 in funded by debt (Table 2).

Equity Multiplier – indicates a company using more equity or less debt to finance the purchase of assets. Among of the three companies, Tao Heung has the lowest in 2020 and a stable figure of average 1.72 (Table 2). This shows Tao Heung uses less debt to finance its assets and the rest are liabilities to assets.

Time Interest Earned Ratio – indicate company able to meet its debt obligation based on its current income. The outcome will represent how many times a company could cover its interest charges with pre-tax earnings. As all three companies are less than 2.5 (Table 2) and they are considered as high risk for bankruptcy and financial unstable as the overall industrial has low sales and income due to pandemics and may not be able to pay its interest obligations to be debts.

Cash Coverage – to measure a company whether they have ability to service its debt and meet the financial obligation. The higher the ratio, the easier to make interest payments on its debt or pay dividends. And only Fulum Group and Tao Heung has a figure >1 (Table 2) in average and consider to be a good liquidity and can be more easily fund its debt but Dragon King indicated with negative figure which means their business is in danger of defaulting on its debt.

2.3 Inventory and Receivables Ratios

Inventory and Receivables Ratios is to measure a company effectiveness of paying the bills, collecting cash from customers, and turn inventory to sales. Both are in the current assets category and helps to have a better picture of how quick it receives the money (Investopedia, 2019).

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Inventory Ratio	7.6	9.0	12.1	14.4	20.0	24.6	7.7	12.1	11.8
Days' Sales in Inventory (days)	48	41	30	25	18	15	48	30	31
Receivables Ratio	207.7	108.6	141.7	90.2	89.8	96.7	82.8	153.3	55.1
Average Collection Period (days)	2	3	3	4	4	4	4	2	7
Operating Period (days)	50	44	33	29	22	19	52	32	38
Cash Period (days)	29	2	-14	15	10	5	4	2	7

Table 3: Inventory and Receivables Ratios
Source: Illustrated by Writer

Inventory Ratio & Days' Sales in Inventory - helps company to know how many times has to replace or sell the stock within a time frame and day's sales in inventory measures the number of days it takes a company to sell all of its inventory. Compare with others, Tao Heung has a high inventory ratio (Table 3) which means good restock and low days sales in inventory which indicate the business is efficient, both in terms of sales performance and inventory management (Spaulding, 2020).

Receivable ratio - how many times accounts receivable are collected during an operating period and converted to cash. Compare with those 2 other companies, Fulum Group and Dragon King has a high number of times which indicate that receivables are collected quickly and to improve the ratio we may consider to be more proactive, incentive for early payment and increase the billing efficiency and we can see all three companies has an average of 3 – 4 days (Table 3) and that means the shorter the better to manage their average collection period for smoothly business operation.

The average collection period - is indicate of the effectiveness of its AR. In general, the lower the more favourable than the higher collection period. It indicated our cilents are reliabile and pay their bills on time less than 4 days (Table 3) in average to 3 years.

Operating and Cash period – a cycle of business activity which cash is used to buy resources that are converted into products or services and then are sold for cash. Tao Heung has the shortest days (Table 3) in average compare to two others and this indicate less cash is needed to maintain the operations and able to sell inventory quickly. For cash period it indicate how long to convert cash into inventory, sales and finally to cash. We can see all three companies has an average of no more than 10 days and that means the shorter the better for cash conversion cycle.

2.4 Creditor's Ratio

Creditor's ratio in days is to show Tao Heung and other competitors its average days to take and pay to suppliers; and Debtor collection period is to show the efficiency in collecting the money owed.

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Debtor Collection Period (days)	2	3	3	4	4	4	4	2	7
Creditor Ratio (days)	21	42	46	14	13	13	207	138	128

Table 4: Creditor's Ratio
Source: Illustrated by Writer

As we can see, Tao Heung has the more less days (Table 4) to do the payment to suppliers. However, they did not get better use for cash comparing to Fulum Group. The group is conserve and eventually they may use the gap to generate cash in other ways. For Dragon King, they may have financing issue with trouble generating and retaining cash (Complete Controller, 2020).

In addition to debtor collection, they are similar and suppliers have confidence to do businesses with all. Especially, Dragon King has a celerbrity shareholder (幟哥) which taking the advantages of supplier relationships and consider to operation longer creditor day and bills just in time.

2.5 Total Asset Turnover

Total asset turnover is to measure operating performance. It is to compares the net sales to fixed assets and the higher the value, the efficient a company ability to generate net sales from its fixed-asset investments (Kenton, 2019).

In 2020, we sees Fulum Group and Dragon King has a better outcome as they are greater than 1 and Tao Heung sales HK$ 0.81 and assets HK$ 1 (Table 5), which is < 1. Per my finding that the group has a larger percentage on inventories, cash and cash equivalents (23%) than Fulum Group (19%) and Dragon King (14%). In general, the business is now in new normal with slow growth on sales and to improve the figure Tao Heung should consider reducing their inventory to increase the total asset turnover and gain efficinecy in the use of fixed and all assets.

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Total Asset Turnover (times)	1.83	2.18	2.22	0.81	1.28	1.73	1.41	1.57	2.10

Table 5: Total Asset Turnover
Source: Illustrated by Writer

2.6 Profitability Measures

Profitability ratios are to measure and evaluate the ability of a company to generate profit relative to revenue, balance sheet assets, operating costs, and shareholders' equity during a specific period of time. It will show how well a company utilizes its assets to produce profit and value to shareholders (CFI, 2021).

The below listed Chinese restaurant chains had affected by the Covid-19 outbreak, governement's measures had suspended their dine-in services and control their operational time. Although, now it had resume and back to new normal but the economic challenges still existed and reflected to their annual reports in 2020 with less sales to turn into profits.

Comparing to those two, Tao Heung has the lowest gross profit margin but at least to have a positive figure in average within the recent three years of 1% (Table 6) profit margin, a net income of HK$0.01 for each dollar of sales generated and the rest in average to have negative figure.

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Gross Profit Margin	65%	70%	70%	1%	13%	11%	69%	69%	68%
Net Profit Margin	-34%	1%	1%	-2%	3%	3%	-38%	-9%	-14%
ROA (after Tax)	-63%	2%	3%	-2%	4%	5%	-54%	-14%	-29%
ROE (after Tax)	-222%	3%	4%	-3%	8%	6%	131%	-195%	-109%
Reference									
Stock Value (HKD)	0.186	0.186	0.620	0.820	1.290	1.300	0.630	0.400	1.260

Table 6: Profitability Measures
Note 1: Stock value (HKD) year ended 31 Dec, 2020
Source: Illustrated by Writer

Both ROE and ROA are not looking good on year 2020 and all three have issues generating sales to profits from 2019 of the second half of anti-government protects to 2020 of the outbreak for ROA.

The individual stocks are chained with the business performance of each company; not following the Hong Kong market trends (HSI) and dropped mainly from the beginning of Q3-2019 to Q3-2020 time-to-time over 40% comparing to 2018 price as the period rarely perform well on sales with the above two major causes (Figure 1).

Figure 1: Companies Stock Market Graph
Source: Yahoo

2.7 Valuation & Growth Ratios

The valuation and growth ratio is to determine what a company is worth and the ratios are to evaluate investment potential especially to investors for the company's performance (Accounting Play 1, 2015). The most common ratios are as follows:

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Earning Per Share	-0.49	0.02	0.03	-0.05	0.13	0.11	-0.05	-0.02	-0.04
PE Ratio	-0.38	9.45	18.97	-15.05	9.66	12.15	-12.13	-16.24	-31.25
Dividend per Share	0.00	0.043	0.050	0.030	0.095	0.115	0.00	0.00	0.00
Dividend Pay-out Ratio	0%	218%	153%	-55%	71%	108%	0%	0%	0%
Dividend Yield Ratio	0%	23%	8%	4%	7%	9%	0%	0%	0%
P/B Ratio	0.84	0.26	0.79	0.52	0.80	0.78	-15.91	1.16	5.30

Table 7: Valuation & Growth Ratios
Source: Illustrated by Writer

P/E Ratio – is to determine whether a stock is over/under valued and it can benchmarked against other stocks in the same industry. If P/E over 15 is “expensive” and investors are willing to pay at a higher share price for the long-term, it does not mean the stock is overvalued (Berger, 2020). Due to the pandemic, less sales and profits are generated in 2020 which affected their 2020’s P/E (Table 7), but in average of their recent year Tao Heung and Fulum Group may consider investing long-term.

P/B Ratio – is for investors to identify potential investment. If the ratio is under 1 are typically considered for long-term investment. Fulum Group and Tao Heung can be considered as long-term investments as they are under 1 (Table 7).

Dividend Pay-out Ratio – It is the ratio to the earning per share and find out what part a company paid from its profit. It will benefit investors if its value increase but bad for company (Askanydifference.com, 2021). Comparing to above figure, Dragon King and Fulum Group does not have dividends for shareholders and only Tao Heung did provide but with -55% (Table 7) dividend pay-out ratio in 2020 due to less sales and profits are generated. And the negative figure shows that Tao Heung is using their existing cash to pay the dividends to shareholders and this can ensure investors loyalty and to keep them on hand to reinvest.

Dividend Yield Ratio – It is the ratio to the market of that share and finding out the amount a shareholder will get. It will benefit if it increases and remains the same as bad for investors (Askanydifference.com, 2021). Compared to the above companies, we can see Tao Heung although the 2020 dividend yield drop y-o-y by 3% (Table 7) also better than Fulum Group and Dragon King as they have no dividends in 2020 due to loss profits in the fiscal year.

2.8 Bankruptcy Index (Altman's Z-score Index)

Altman's Z-score index is to predict the probability of a firm go into bankruptcy within 2 years (Hayes, 2019). Based on the result of 2020, Tao Heung & Dragon King are "Grey" Zone ($1.81 < Z < 2.99$) and Fulum Group is on "Distress" Zone ($Z<1.8$) which means Fulum has high risk of bankcrupt and Tao Heung & Dragon King with less chance but still have uncertain risk (Table 8).

	Fulum Group 富臨集團 (HKEX: 1443)			Tao Heung 稻香 (HKEX: 0573)			Dragon King 龍皇 (HKEX: 8493)		
(Unit: HKD'000)	2020	2019	2018	2020	2019	2018	2020	2019	2018
Total Assets	1,011,357	1,202,420	1,336,965	2,943,918	3,061,313	2,391,292	139,524	256,912	197,660
Total Liabilities	724,463	264,065	311,411	1,349,079	1,424,022	705,252	196,527	-238,715	-144,437
Current Assets	339,731	761,260	910,300	951,716	999,238	911,622	52,922	82,475	100,537
Current Liabilities	483,498	221,411	264,720	797,261	786,923	598,395	177,250	159,495	140,921
EBIT	-591,738	41,059	61,030	-35,496	233,365	152,112	-69,085	-25,061	-54,341
Retained Earnings (Reserves)	285,594	936,371	1,024,254	1,470,576	1,503,338	1,565,445	-71,403	3,797	38,823
Net Sales (Revenue)	1,853,918	2,627,192	2,961,974	2,388,477	3,905,708	4,138,788	196,038	402,320	415,033
Stock value	0.186	0.186	0.62	0.82	1.29	1.30	0.63	0.40	1.26
Number of Stock ('000)	1,300,000	1,300,000	1,300,000	1,016,611	1,016,611	1,016,611	1,440,000	1,440,000	1,440,000
A	0.40	0.76	0.82	0.39	0.39	0.46	0.46	0.39	0.61
B	0.40	1.09	1.07	0.70	0.69	0.92	-0.72	0.02	0.27
C	-1.93	0.11	0.15	-0.04	0.25	0.21	-1.63	-0.32	-0.91
D	0.20	0.55	1.55	0.37	0.55	1.12	2.77	-1.45	-7.54
E	1.83	2.18	2.21	0.81	1.27	1.73	1.40	1.56	2.10
Z-Score	0.90	4.69	5.81	2.23	3.16	4.44	2.28	0.20	-5.46

Z-score: Z=1.2A+1.4B+3.3C+0.6D+0.999E; Distress = Z < 1.8; Grey = 1.81 < Z < 2.99; Safe = Z < 3.0;
A = Working Capital / Total Assets; B = Retained Earnings / Total Assets; C = EBIT / Total Assets;
D = Market Value of Equity / Total Liabilities; E = Sales / Total Assets

Table 8: Bankruptcy Index (Altman's Z-score Index)
Source: Illustrated by Writer

3 Corporate Governance Assessment

Further on this situation, we will explore the Group's internal control and risk management to make appropriate recommendations.

3.1 Corporate Governance of Business Organization & its Impact and Importance

Corporate governance is a policies, processes and rules that direct and control a buisness's behaviour. It is also about the relationships with management, board of directors controlling shareholders, other shareholders and institutions who save and invest their captial to earn a return. The management of the Company should operation and implements the strategic decisions or deals under the delegation and authority of the Board. It is necessary to be transparency; to ensure the developments are balance for the organization, maximise the long-term value for the group and helps to keep the interest of all shareholders safeguarded (Diligent Insights, 2017). Each shareholders are responsible for approving the appointment of directors, the boards to set strategic road mapping and oversight the roles over managements.

3.2 Existing Corporate Governance of Tao Heung

The Board of Tao Heung has a balanced composition of Executive and Non-executive Directors to ensure all independent viewpoints are in the discussions. The Board currently comprises of nine directors, included four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors.

Each of the Executive Directors has a service contract with the Group for an initial term of three years commencing from the Listing Date and may terminated only in accordance with the provisions of the service contract after the first two years by either party giving to the other and not less than three months prior notice in writing.

The Company has renewed the service contract of each of the Non-executive Directors and Independent Non executive Directors for a term of two years commencing from 29 June 2020. One-third of the Board is Independent Non-executive Directors, and one of whom has professional accounting qualifications, or related financial management expertise, as required by the Listing Rules. Each of the Independent Non-executive Directors must give an annual confirmation of independent to the Company pursuant to Rule 3.13 and all the Independent Non-executive Directors shall meet the independence guideline of Rule 3.13 and in accordance with the terms of the guidelines (Tao Heung Holdings Ltd., 2021).

Since the Covid-19 pandemic, the Group had adjusted and refined the business model from last financial year.

	Fulum Group			Tao Heung			Dragon King		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
ROA (after Tax)	-63%	2%	3%	-2%	4%	5%	-54%	-14%	-29%
ROE (after Tax)	-222%	3%	4%	-3%	8%	6%	131%	-195%	-109%

Table 9: ROA & ROE Table (Fulum Group, Tao Heung & Dragon King)
Source: Illustrated by Writer

According to the above data with compare, Tao Heung performance is performing well compare to the two others and their trends are still within the industry. The low performance in 2020 is due to dine-in restriction and limit dining from the pandemic crisis of last year (Table 9). During the wake of the new normal, the Group had strictly implement cost control

measure, seeking new opportunities for diversity in Mainland China and business cover both online and offline as long-term sustainable for shareholders.

3.3 Suggestions for Improvement

We recommend and suggest Tao Heung to pay attention on below issues as for further improvements:

- The board members are most likely senior; over six out of nine are over 60 yrs old and one out of nine is below 50 yrs old, which is Mr. CF Chung (one of the founder, Mr. WP Chung's son, aged 34, Executive Director & appointed as Operation Director).

- Traditional business structure with experienced members and less younger personnel innovative idea to the company. The pandemic had speed up their progress on using new technology due to dine-in restrictions and created a new line on takeaway and food packing service to online and offline platform.

- Less transparency with partnerships. Shall disclose more information in percentage on supplier(s) and customer(s) in business breakdown and label as, eg.: Supplier A, Supplier B / Customer A, Customer B etc. Open more to public and transits information to small shareholders' to create less worries and more to invest.

- Internal control and risk management are unclear. Less information are disclose from the report, not able to play monitoring and transparent checks to cross departments.

4 Investment Appraisal

4.1 Project Information & Calculation

Project Initial Cost

Project Cost	HK$ ('000)	Remark	Reference	
Factory Size (sq.m)	13,000			
Rental Price	15	Sha Tin / Fo Tan Rent	Rent	
Rental (Deposit + First 6 months)	1,755			
Decoration + Equipment Total	48,100	HK$ 3.6/sq.ft	Link (Ref.1)	
Reserve	45,382			53,535
Initial Total Cost (up to 9 yrs)	95,237		Initial Total Cost (up to 12 yrs)	103,390

Figure 2: Project Initial Cost
Note 1: Rental price – info. acc. to Midland
Note 2: Decoration + Equipment Total – acc. to Deliveroo.
Source: Midland IC&I. (2021) & Inside Retail (2020)

Project Remaining Cost Information

Remaining Basic Information	Unit	Remark
Sales Growth Rate (2016 - 2020 Average)	10%	Based on Tao Heung Food Production & Catering
EBITDA Margin	17.12%	(Tao Heung 2020)
Cash period (Days)	10	(Tao Heung 2020)
Inflation (3-10yrs)	3%	Average of recent 10 yrs from macrotends.net

Figure 3: Project Remaining Cost Information
Source: Illustrated by Writer

Project Sales Estimation + Rent (/yr) + Depreciation Calculation

Project Details	Unit	Remark
Sales / Sq.ft	9.58	2018 Tao Heung Average Sales / sq.ft
Est. Sales	124,540	
Rent Per Year	2,340	
Decoration + Equipments Depreciation	16,017	33% (Tao Heung: Depreciation 22 - 33.3%, Max. 33%)
New Equip. Investment Depr. (1st)	16,498	33% (Tao Heung: Depreciation 22 - 33.3%, Max. 33%)
New Equip. Investment Depr. (2nd)	16,993	33% (Tao Heung: Depreciation 22 - 33.3%, Max. 33%)
New Equip. Investment Depr. (3rd)	17,503	33% (Tao Heung: Depreciation 22 - 33.3%, Max. 33%)

Figure 4: Project Sales Estimation + Rent (/yr) + Depreciation Calculation
Source: Tao Heung Annual Report 2020 (Depreciation, P. 57) + Illustrated by Writer

Tax + Cash Flow Calculation (Up to 9 Years)

Computering Tax Cost	Remark	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr
Sales	-	124,540	136,994	154,803	174,928	197,668	223,365	252,403	285,215	322,293
EBITDA	-	21,317	23,449	26,497	29,942	33,834	38,233	43,203	48,820	55,166
Decoration Depreciation	-	16,017	16,017	16,017	16,498	16,498	16,498	16,993	16,993	16,993
EBIT	-	5,300	7,432	10,480	13,444	17,337	21,735	26,211	31,827	38,173
Tax (16.5%)	-	874	1,226	1,729	2,218	2,861	3,586	4,325	5,251	6,299
Profit / Loss	-	4,425	6,205	8,751	11,226	14,476	18,149	21,886	26,575	31,875

Cash Flow Calculation	Initial Cost	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr
EBITDA	-	21,317	23,449	26,497	29,942	33,834	38,233	43,203	48,820	55,166
Expenditure (Rent)	-	2,340	2,340	2,340	2,340	2,340	2,340	2,340	2,340	2,340
Expenditure (Working Capital 1st yr)	-	3,412	3,753	4,241	4,793	5,416	6,120	6,915	7,814	8,830
New Equipment Automation Investment	-	0	0	0	49,543	0	0	51,029	0	0
Taxes	-	874	1,226	1,729	2,218	2,861	3,586	4,325	5,251	6,299
Cash Flow	-95,237	14,691	16,130	18,187	-28,952	23,218	26,187	-21,406	33,414	37,698
Cash for Investment (Acc. to period)					26,747			18,635		
Total Cash for Investment							*4 & 7th yr*	45,382		

Tax + Cash Flow Calculation (Up to 12 Years)

Computering Tax Cost	Remark	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr	10 Yr	11 Yr	12 Yr
Sales	-	124,540	136,994	154,803	174,928	197,668	223,365	252,403	285,215	322,293	364,191	411,536	465,035
EBITDA	-	21,317	23,449	26,497	29,942	33,834	38,233	43,203	48,820	55,166	62,338	70,442	79,599
Decoration Depreciation	-	16,017	16,017	16,017	16,498	16,498	16,498	16,993	16,993	16,993	17,503	17,503	17,503
EBIT	-	5,300	7,432	10,480	13,444	17,337	21,735	26,211	31,827	38,173	44,835	52,939	62,097
Tax (16.5%)	-	874	1,226	1,729	2,218	2,861	3,586	4,325	5,251	6,299	7,398	8,735	10,246
Profit / Loss	-	4,425	6,205	8,751	11,226	14,476	18,149	21,886	26,575	31,875	37,437	44,204	51,851

Cash Flow Calculation	Initial Cost	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr	10 Yr	11 Yr	12 Yr
EBITDA	-	21,317	23,449	26,497	29,942	33,834	38,233	43,203	48,820	55,166	62,338	70,442	79,599
Expenditure (Rent)	-	2,340	2,340	2,340	2,340	2,340	2,340	2,340	2,340	2,340	2,340	2,340	2,340
Expenditure (Working Capital 1st yr)	-	3,412	3,753	4,241	4,793	5,416	6,120	6,915	7,814	8,830	9,978	11,275	12,741
New Equipment Automation Investment	-	0	0	0	49,543	0	0	51,029	0	0	52,560	0	0
Taxes	-	874	1,226	1,729	2,218	2,861	3,586	4,325	5,251	6,299	7,398	8,735	10,246
Cash Flow	-95,237	14,691	16,130	18,187	-28,952	23,218	26,187	-21,406	33,414	37,698	-9,938	48,092	54,273
Cash for Investment (Acc. to period)					26,747			18,635			8,153		
Total Cash for Investment							*4 & 7th yr*	45,382		*4,7 & 10th yr*	53,535		

Table 10 (top) + 11 (bottom): Tax + Cash Flow Calculation (Up to 9 & 12 Years)
Source: Illustrated by Writer

NPV & ARR Calculation (Up to 9 & 12 Years)

Tao Heung Average. ROA		
2%	Cashflow	Net Profit
Year 0	-95,237	-
1	14,691	4,425.48
2	16,130	6,205.47
3	18,187	8,750.86
4	-28,952	11,225.91
5	23,218	14,476.12
6	26,187	18,148.85
7	-21,406	21,885.77
8	33,414	26,575.49
9	37,698	31,874.86
10	-9,938	37,437.49
11	48,092	44,204.26
12	54,273	51,850.72
Total	119,167	
NPV	10,769.94	
ARR	16.75%	

	Cashflow	Net Profit
Year 0	-103,390	-
1	14,691	4,425.48
2	16,130	6,205.47
3	18,187	8,750.86
4	-28,952	11,225.91
5	23,218	14,476.12
6	26,187	18,148.85
7	-21,406	21,885.77
8	33,414	26,575.49
9	37,698	31,874.86
10	-9,938	37,437.49
11	48,092	44,204.26
12	54,273	51,850.72
Total	211,593	
NPV	75,936.78	
ARR	22.33%	

Table 12: NPV & ARR (Up to 9 & 12 Years)
Source: Illustrated by Writer

PBP & IRR Calculation (Up to 9 & 12 Years)

	Cashflow	Cum
Year 0	-95,237	-95,237
1	14,691	-80,546
2	16,130	-64,417
3	18,187	-46,230
4	-28,952	-75,182
5	23,218	-51,963
6	26,187	-25,776
7	-21,406	-47,182
8	33,414	-13,768
9	37,698	23,930
10	-9,938	13,992
11	48,092	62,084
12	54,273	116,356
Payback Period (PBP)	8 Years	5 mnths
IRR	3.93%	

	Cashflow	Cum
Year 0	-103,390	-103,390
1	14,691	-88,699
2	16,130	-72,569
3	18,187	-54,383
4	-28,952	-83,334
5	23,218	-60,116
6	26,187	-33,929
7	-21,406	-55,335
8	33,414	-21,921
9	37,698	15,777
10	-9,938	5,839
11	48,092	53,931
12	54,273	108,203
PBP	8 Years	7mnths
IRR	9.59%	

Table 13: PBP & IRR (Up to 9 & 12 Years)
Source: Illustrated by Writer

4.2 Investment Appraisal

From the above analysis result, we can see the new expansion plan of food production and catering service for Tao Heung has a payback period of no more than 9 years (Max. 8 years and 7 months). Further, Tao Heung should do expansion for new profit and explode new customer network on providing food packaging and catering services as the calculation from our analysis shows positive values on NPV and returns. Calculation are based on 9 and 12 year plans and we recommend to use 12 years for long-term investment.

The proposal is only 1.45% cash more for 3 years time. Both plan will have a positive NPV but compare to 12 years planning we will have a shape increase of 7 times NPV as 9 years plan (Table 12: NPV & ARR (Up to 9 & 12 Years), Page. 17) and this means that the discounted present value of all the future cash will be positive and will be attracted for investment. The purpose of using cash and cash equivalents is because no indication from 2020 annual report to show reserves for new project or investment.

Initial Cost vs Cash and Cash Equivalents Calculation (9 & 12 Years)

Up to 9yrs	HK$('000)
Initial Cost	95,237
Cash and Cash Equivalents	561,243
	16.97%

Up to 12yrs	HK$('000)
Initial Cost	103,390
Cash and Cash Equivalents	561,243
	18.42%

Table 14: Initial Cost vs Cash and Cash Equivalents (9 & 12 Years)
Source: Illustrated by Writer

4.3 Method of Analysis

*Below analyse will be based on 12 years planning for long-term investment.

Investment Returns – 73%, the good thing about the investment returns is a simple math, however this does not consider for the time loss. Tao Heung has a high returns in this field and this will lead investors interested for long-term.

ARR - 22.33% are expected to earn 22.33 cents per dollars invested yearly and this project is acceptable to go ahead as the ARR is greater than actual growth. Hence, it is >15% as min. requirement of return and covered the new equipment but the disadvantage of ARR is not to account the concept of time value of money (SmartAsset, 2020).

NPV – NPV HK$ 75.94m @ ROA 2% (Average of 2018 to 2020) and has a positive figure which means analyse of our investment is profitable under our calculation by taking the present value of cash inflow and outflow for the future. Our investment may consider as long-term investment and will able to balance out or better (Gallo, 2014).

IRR – 9.6%, the purpose of IRR is to see the discount rate at which the NPV of the futur cash flows is equal to the initial investment as project to “Zero”. This project will give us an estimation of 9.6% for 12 years and expected return to Tao Heung.

According to Tao Heung 2020 annual report, the company has HK$ 561.2m on hand which is 18.42% of its cash and cash equivalents for investment capital. The organization may not need to borrow money from the bank, and from Chapter 2 we can use the liquidity and solvency ratio to justify that Tao Heung is safe to go ahead for the investment.

5 Financing and Capital Management

For finance and capital management section, we will analyze the pros and cons of different ways for Tao Heung to do financing for new project.

5.1 Financing Method for analyzing

Cash Payment – The most advantage about cash is will not carrying interest and they are mainly for short-term high liquidity investment.

Bank Loans – Generally, companies will have bank loans for start-up business while the company needs to pay interest to loans and no need to share profit to your company. It is not recommend to do bank loans unless the interest ratio is lower than Tao Heung's ROA 2%.

Issue Share Capital for Fund Raising – To issue share from the public, reduce the debt or liquidity for investment. It is common; however, the beverage industry is on downside; share price dropped 64% from 2018 to 2020-year end and less investors are welling to take risk unless business either has recovered from pandemic or positive market sentiment with higher P/E range from 13 to 15. If over 15, it is too expensive unless investors are looking for long-investment.

5.2 Financing Method Proposed

We are proposing to use the cash and cash equivalents for the new project capital. Per our calculation, the project will use 18.42% (Table 14) of the cash out of HK$ 561.2m and the Payback period will be 8 years and 7 months. Other methods may had considered, included bank loan and issuing share from the market, but the bank loan rate (approx. 5%) is higher than ROA and even if we use partner bank the interest rate still high than 1% (3%, Annual Report 2019, Page.104). This means our profiting will able to cover our investment and if we are using loan then we will need to pay extra to cover the interest.

Secondly, if we consider issuing share capital to the market then it is not the right timing as the market capitalization has downsized due to share price dropped and poor market trend from pandemic. Less investors are willing to invest for long-term as the stock value shows poor P/E ratio. Therefore, the best way for our new project is to use cash for investment.

6 Recommendations and Audit Plan

This section, we will suggest to use cash for the corporate and to set the tractability by applying audit plan to check and monitor our new business to ensure the Group to be financial healthy.

As new project being developed, and we have to keep on tracks with our group business as well as the new project. The project is using the Group's cash and we will need to conduct regular review and monitoring to prevent failures.

Hence, we recommend and propose to the below follow up:

Preform Cash Flow Statement follow up – It is to foresee the business and organization earnings and to predict the business are financial health. To provide information about cash receipts, cash payments, and the net change in cash resulting from the operating, investing, and financing activities of a company during the period. Although, Tao Heung has a good figure in average >1 (ref. to Page. 5) on liquidity which indicate more cash than current liabilities and able to cover all short-terms debt and still have cash remaining. Since our new project is using cash to pay-off and included reserve cost as to prevent risk but it will be also a good idea to monitor, to ensure the new business comply to good governance.

Inventory Checks – To help and manage the ordering, stocking, storing and using of inventory and monitor the asset of the business, reduce the costs of carrying inventory while maximize your sales. Last 2 years Tao Heung facing less sales and inventory turns compare to 2018. It dropped 57% of sales and 10 more days for days' sales in inventory in 2020 but it is still in a best shape of 15 – 20 times for inventory ratio. This is mainly because of the business slowdown in COVID-19 and social protest. With the existing business expansion and purposed new project, the inventory shall be taking closer look if the stock is not sold, then it will be tied up with risk.

Operational Governance – Tao Heung business model is traditional and less innovation ideas until they manage to change during the pandemic and social protest. The board's structure are too experienced and over 90% are above 50 years old. The board need to be aware of their strengths and weaknesses. We encourage improving their development programs and planning for more diversity business model.

7 Conclusion

We will recommend Tao Heung Holdings Ltd to be more proactive on using cash or investment to generate profit as break through from the business slowdown. Although, coming up they had planned to open at least six new restaurants in Mainland China, extend their catering services included overseas markets in packaged food business and bakeries in Singapore plus Malaysia market in the new financial year but more they should have new diversify trends, eg. provide packed food to local supermarket or overseas and doing online shopping platforms to sustain new growth. In overall of its quick and cash ratio <1 which means they are able to handle short-term obligations and still have cash remaining and the equity multiplier is low in average 1.72 (Table 2) as indicate using less debt to finance its assets and the rest are liabilities to assets. These figures are good enough to be aggressive using cash to setup new business.

Secondly, they should input more ideas that are new and getting out from the traditional in the corporate governance. Be more transparency in business to show the public and able to get investors attention in the public market. The board needs new blood as 60% are seniors, which may have less new ideas for new or potential businesses.

Hence, the current liabilities to stock ratio is over 4, if the ratio between 1.5 and 3 are considered healthy, but the fixed asset to long term liability and current liabilities to net asset ratio is under 1 which indicate cut off expenses and pay off debt is the best way to increase the debt ratio with better creditworthiness and now they may have difficulties to borrow money if according to figures (Table 1).

In overall, a good finanical health are expert to include four key components: Spend, Save, Borrow and Plan (Salal, 2020), and according to Tao Heung's financial the Group is healthy. Although, they have challenge from the pandemic, social distancing and travel restrictions and now domestic demand is improved. In further to Tao Heung's annual report 2021, I believe that it will have a better figures compare to 2020 as less restrictions, sales will remain slow growth and new investment from Mainland China of those restaurants will be reflected.

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Consolidated Statement of Profit or Loss

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	**2,388,477**	3,905,708
Cost of sales		**(2,356,715)**	(3,409,940)
Gross profit		**31,762**	495,768
Other income and gains, net	5	**213,500**	106,748
Selling and distribution expenses		**(90,047)**	(105,078)
Administrative expenses		**(168,418)**	(198,253)
Other expenses		**(27,893)**	(66,486)
Finance costs	6	**(36,921)**	(42,977)
Share of profits and losses of associates, net		**5,600**	666
PROFIT/(LOSS) BEFORE TAX	7	**(72,417)**	190,388
Income tax credit/(expense)	10	**17,034**	(54,584)
PROFIT/(LOSS) FOR THE YEAR		**(55,383)**	135,804
Attributable to:			
Owners of the parent		**(57,956)**	124,968
Non-controlling interests		**2,573**	10,836
		(55,383)	135,804
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	12	**(5.70)**	12.29
– Diluted (HK cents)	12	**(5.70)**	12.29

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(55,383)**	135,804
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**62,520**	(13,420)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,137**	122,384
Attributable to:		
Owners of the parent	**3,039**	111,942
Non-controlling interests	**4,098**	10,442
	7,137	122,384

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**886,363**	897,786
Right-of-use assets	14(a)	**760,951**	883,295
Investment properties	15	**25,100**	29,400
Goodwill	16	**39,556**	38,677
Other intangible asset	17	**–**	–
Investments in associates	18	**8,378**	5,084
Deferred tax assets	19	**112,583**	86,549
Rental deposits		**74,393**	89,374
Deposits for purchases of items of property, plant and equipment		**84,878**	31,910
Total non-current assets		**1,992,202**	2,062,075
CURRENT ASSETS			
Inventories	20	**163,272**	170,867
Trade receivables	21	**26,469**	43,507
Prepayments, deposits and other receivables	22	**169,510**	144,259
Tax recoverable		**11,826**	1,690
Restricted cash	23	**4,344**	4,100
Pledged deposits	24	**15,052**	13,875
Cash and cash equivalents	24	**561,243**	620,940
Total current assets		**951,716**	999,238
CURRENT LIABILITIES			
Trade payables	25	**91,557**	119,872
Other payables and accruals	26	**212,570**	247,192
Interest-bearing bank borrowings	27	**272,500**	153,100
Lease liabilities	14(b)	**215,610**	246,641
Tax payable		**5,024**	20,118
Total current liabilities		**797,261**	786,923
NET CURRENT ASSETS		**154,455**	212,315
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,146,657**	2,274,390

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	26	**14,028**	11,741
Lease liabilities	14(b)	**518,321**	606,408
Deferred tax liabilities	19	**19,469**	18,950
Total non-current liabilities		**551,818**	637,099
Net assets		**1,594,839**	1,637,291
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**101,661**	101,661
Reserves	30	**1,470,576**	1,503,338
		1,572,237	1,604,999
Non-controlling interests		**22,602**	32,292
Total equity		**1,594,839**	1,637,291

Chung Wai Ping
Director

Chung Chun Fung
Director

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**3,905,708**	4,138,788
Cost of sales		**(3,409,940)**	(3,677,269)
Gross profit		**495,768**	461,519
Other income and gains, net	5	**106,748**	33,413
Selling and distribution expenses		**(105,078)**	(111,871)
Administrative expenses		**(198,253)**	(199,188)
Other expenses		**(66,486)**	(32,409)
Finance costs	6	**(42,977)**	(3,100)
Share of profits and losses of associates		**666**	648
PROFIT BEFORE TAX	7	**190,388**	149,012
Income tax expense	10	**(54,584)**	(40,261)
PROFIT FOR THE YEAR		**135,804**	108,751
Attributable to:			
Owners of the parent		**124,968**	116,390
Non-controlling interests		**10,836**	(7,639)
		135,804	108,751
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	12	**12.29**	11.45
– Diluted (HK cents)	12	**12.29**	11.45

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

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

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**897,786**	1,031,396
Prepaid land lease payments	14(A)	**–**	86,543
Right-of-use assets	14(B)	**883,295**	–
Investment properties	15	**29,400**	29,400
Goodwill	16	**38,677**	38,883
Other intangible asset	17	**–**	884
Investments in associates	18	**5,084**	11,964
Deferred tax assets	20	**86,549**	100,221
Rental deposits		**89,374**	97,495
Deposits for purchases of items of property, plant and equipment		**31,910**	82,884
Total non-current assets		**2,062,075**	1,479,670
CURRENT ASSETS			
Inventories	21	**170,867**	149,745
Biological assets	19	**–**	235
Trade receivables	22	**43,507**	42,800
Prepayments, deposits and other receivables	23	**144,259**	167,244
Tax recoverable		**1,690**	6,529
Pledged deposits	24	**13,875**	13,653
Restricted cash	24	**4,100**	–
Cash and cash equivalents	24	**620,940**	531,416
Total current assets		**999,238**	911,622
CURRENT LIABILITIES			
Trade payables	25	**119,872**	135,177
Other payables and accruals	26	**247,192**	296,443
Interest-bearing bank borrowings	27	**153,100**	149,667
Finance lease payable	28	**–**	176
Lease liabilities	14(C)	**246,641**	–
Tax payable		**20,118**	16,932
Total current liabilities		**786,923**	598,395
NET CURRENT ASSETS		**212,315**	313,227
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,274,390**	1,792,897

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	26	**11,741**	82,400
Finance lease payable	28	**–**	397
Lease liabilities	14(C)	**606,408**	–
Due to non-controlling shareholders of subsidiaries	29	**–**	7,581
Deferred tax liabilities	20	**18,950**	16,479
Total non-current liabilities		**637,099**	106,857
Net assets		**1,637,291**	1,686,040
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**101,661**	101,661
Reserves	32	**1,503,338**	1,565,445
		1,604,999	1,667,106
Non-controlling interests		**32,292**	18,934
Total equity		**1,637,291**	1,686,040

Chung Wai Ping
Director

Chung Chun Fung
Director