唐宮(中國)控股有限公司

TANG PALACE (CHINA) HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1181)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "**Board**") of Tang Palace (China) Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019, together with comparative figures for the year ended 31 December 2018 as follows:

HIGHLIGHTS

	For the year ended 31 December		Change in
	2019	2018	%
Revenue *(RMB'000)*	**1,495,087**	1,492,128	0.2%
Gross profit *(RMB'000)* (1)	**938,067**	941,019	(0.3%)
Gross profit margin	**62.7%**	63.1%	(0.4%)
Profit for the year attributable to owners of the Company *(RMB'000)*	**91,283**	115,173	(20.7%)
Net profit margin (2)	**6.2%**	7.8%	
Basic earnings per share *(RMB cents)*	**8.52**	10.80	(21.1%)
Dividend per ordinary share			
— Interim special dividend *(HK cents)*	**3.40**	3.40	
— Proposed final dividend *(HK cents)*	**—**	9.20	
Number of restaurants (self-owned)	**59**	59	
Number of restaurants (joint ventures)	**14**	8	

(1) Gross profit is calculated by revenue minus cost of inventories consumed.

(2) Net profit margin represents the percentage of profit on the Group's revenue for the year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Revenue	*3*	**1,495,087**	1,492,128
Other income	*3*	**41,393**	38,221
Cost of inventories consumed		**(557,020)**	(551,109)
Staff costs		**(472,265)**	(448,071)
Depreciation of items of property, plant and equipment		**(47,121)**	(50,420)
Depreciation of right-of-use assets		**(93,709)**	—
Utilities and consumables		**(81,707)**	(77,498)
Rental and related expenses		**(25,607)**	(139,875)
Other expenses		**(89,405)**	(89,722)
Finance costs	*5*	**(27,707)**	(1,870)
Share of losses of joint ventures		**(3,817)**	(3,803)
PROFIT BEFORE TAX	*6*	**138,122**	167,981
Income tax expense	*7*	**(45,276)**	(50,975)
PROFIT FOR THE YEAR		**92,846**	117,006
Attributable to:			
Owners of the Company		**91,283**	115,173
Non-controlling interests		**1,563**	1,833
		92,846	117,006
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*		
Basic and diluted *(RMB cents)*		**8.52**	10.80

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**92,846**	117,006
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	**3,511**	(3,029)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income:		
Changes in fair value	**(15,326)**	(20,700)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(11,815)**	(23,729)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**81,031**	93,277
Attributable to:		
Owners of the Company	**79,468**	91,444
Non-controlling interests	**1,563**	1,833
	81,031	93,277

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**151,047**	139,731
Right-of-use assets		**276,542**	—
Intangible assets		**2,429**	3,680
Investments in joint ventures		**13,354**	5,589
Financial assets at fair value through other comprehensive income		**23,146**	38,209
Financial assets at fair value through profit or loss		**27,456**	—
Prepayments and deposits	*10*	**35,090**	45,173
Deferred tax assets		**15,222**	4,408
Total non-current assets		**544,286**	236,790
CURRENT ASSETS			
Inventories		**51,344**	47,075
Trade and other receivables and prepayments	*10*	**46,812**	62,148
Due from joint ventures		**3,733**	2,696
Pledged time deposits		**80,000**	80,000
Time deposits		**34,000**	64,000
Cash and cash equivalents		**382,454**	400,354
Total current assets		**598,343**	656,273
CURRENT LIABILITIES			
Trade and other payables	*11*	**305,348**	289,926
Due to related companies		**404**	353
Interest-bearing bank borrowings		**80,000**	79,200
Lease liabilities		**79,503**	—
Tax payable		**10,511**	14,171
Total current liabilities		**475,766**	383,650
NET CURRENT ASSETS		**122,577**	272,623
TOTAL ASSETS LESS CURRENT LIABILITIES		**666,863**	509,413
NON-CURRENT LIABILITIES			
Lease liabilities		**230,929**	—
Deferred tax liabilities		**6,895**	6,780
Total non-current liabilities		**237,824**	6,780
NET ASSETS		**429,039**	502,633
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**45,726**	45,496
Reserves		**378,167**	450,950
		423,893	496,446
Non-controlling interests		**5,146**	6,187
Total equity		**429,039**	502,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at Unit 3, 10th Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong.

During the year, the Group was principally engaged in restaurant operations and food productions.

2.1 BASIS OF PREPARATION

These 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**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation ***(Continued)***

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 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.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

As a lessee — Leases previously classified as operating leases (Continued)

Impact on transition (Continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019
- Relying on the entity's assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review
- Excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application when applying HKFRS 16.C8(b)(i)

Financial impact at 1 January 2019

Accordingly, the Group recognised right-of-use assets of RMB277,249,000 and lease liabilities of RMB314,739,000 as at 1 January 2019. Prepaid rental of RMB15,119,000 was derecognised, resulting in a decrease in trade and other receivables and prepayments of RMB15,119,000 as at 1 January 2019. Deferred tax assets increased by RMB12,815,000 as at 1 January 2019 because of the tax impact on the change in assets and liabilities, resulting in a net decrease in retained profits of RMB39,014,000 and a decrease in non-controlling interests of RMB780,000. The weighted average incremental borrowing rate applied to the lease liabilities recognised at 1 January 2019 is 7.8%. There is no significant difference between the amount of the operating lease commitments at 31 December 2018 disclosed applying the previous accounting standards, discounted using the incremental borrowing rate at 1 January 2019 and the amount of lease liabilities recognised in the statement of consolidated financial position at 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

3. REVENUE AND OTHER INCOME

An analysis of the Group's revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Restaurant operations	**1,495,087**	1,492,128

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019	2018
	RMB'000	*RMB'000*
Type of goods or services		
Revenue from restaurant operations and total revenue from contracts with customers	**1,495,087**	1,492,128
Geographical markets		
Northern China	**416,331**	400,331
Eastern China	**576,072**	595,751
Southern China	**378,393**	390,943
Western China	**124,291**	105,103
Total revenue from contracts with customers	**1,495,087**	1,492,128
Timing of revenue recognition		
At a point in time	**1,495,087**	1,492,128

3. REVENUE AND OTHER INCOME *(Continued)*

Revenue from contracts with customers *(Continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Restaurant operations

The performance obligation is satisfied when the catering services have been provided to customers. The Group's trading terms with its customers are mainly on cash and credit card settlement. The credit period is generally less than one month.

	2019	2018
	RMB'000	*RMB'000*
Other income		
Bank interest income	**6,003**	5,567
Commission income#	**25,262**	23,765
Gain on disposal of financial assets at fair value through profit of loss	**—**	3,992
Government grants	**4,554**	1,525
Others	**5,574**	3,372
	41,393	38,221

\# Commission income represents commission received or receivable in respect of sales of tea related products.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on geographical areas and has four reportable operating segments as follows:

(i) the Southern China region;

(ii) the Eastern China region;

(iii) the Northern China region; and

(iv) the Western China region.

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted operating profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that certain interest income, share of losses of joint ventures, unallocated expenses and finance costs (other than interest on lease liabilities) are excluded from such measurement.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Information about major customers

There was no revenue from customers individually contributing over 10% to the total revenue of the Group.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Information about major customers *(Continued)*

Segment information about the business is presented below:

	Northern China		Eastern China		Southern China		Western China		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue										
Sales to external customers	**416,331**	400,331	**576,072**	595,751	**378,393**	390,943	**124,291**	105,103	**1,495,087**	1,492,128
Inter-segment sales	**—**	—	**58,700**	60,872	**—**	—	**—**	—	**58,700**	60,872
	416,331	400,331	**634,772**	656,623	**378,393**	390,943	**124,291**	105,103	**1,553,787**	1,553,000
Reconciliation:										
Elimination of inter-segment sales									**(58,700)**	(60,872)
Revenue									**1,495,087**	1,492,128
Segment results	**57,879**	61,695	**73,059**	69,619	**33,577**	55,028	**25,785**	22,089	**190,300**	208,431
Reconciliation:										
Interest income									**710**	1,251
Share of losses of joint ventures									**(3,817)**	(3,803)
Unallocated expenses									**(46,920)**	(36,028)
Finance costs (other than interest on lease liabilities)									**(2,151)**	(1,870)
Profit before tax									**138,122**	167,981
Other segment information:										
Depreciation of items of property, plant and equipment	**8,597**	7,566	**16,930**	20,151	**15,518**	17,722	**6,076**	4,981	**47,121**	50,420
Depreciation of items of right-of-use assets	**28,764**	—	**32,897**	—	**27,550**	—	**4,498**	—	**93,709**	—
Amortisation of intangible assets	**124**	124	**500**	500	**—**	—	**—**	—	**624**	624
Capital expenditure*	**16,072**	4,265	**21,685**	18,269	**21,039**	14,599	**509**	19,890	**59,305**	57,023

* Capital expenditure represents additions to property, plant and equipment and intangible assets.

For management purposes, segment revenue and segment results are the two key indicators provided to the Group's chief operating decision maker to make decisions about the resource allocation and to assess performance. No segment asset and liability information is presented as, in the opinion of the directors, such information is not a key indicator provided to the Group's chief operating decision maker.

The Group's revenue is arising from restaurant operations and food productions.

Geographical information

All of the Group's operations are located in the People's Republic of China (the "**PRC**"). The Group's revenue from external customers and all of its non-current assets are located in the PRC, including Hong Kong.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans	**2,151**	1,870
Interest on lease liabilities	**25,556**	—
	27,707	1,870

6. PROFIT BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
Depreciation of items of property, plant and equipment	**47,121**	50,420
Depreciation of right-of-use assets	**93,709**	—
Amortisation of intangible assets	**1,255**	1,226
Loss on disposal of items of property, plant and equipment	**345**	603
Impairment of a loan to a joint venture and an amount due from a joint venture*	**511**	2,366
Directors' remuneration	**9,913**	10,664
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**413,076**	391,375
Equity-settled share award plan expense	**2,648**	3,328
Pension scheme contributions (defined contribution schemes)^	**46,628**	42,704
	462,352	437,407
Foreign exchange differences, net	**919**	(2,748)

* The impairment of a loan to a joint venture and an amount due from a joint venture are included in "Other expenses" in the consolidated statement of profit or loss.

^ At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

7. INCOME TAX

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. The Company's subsidiaries in Mainland China are subject to income tax at the rate of 25% (2018: 25%).

	2019	2018
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**37,600**	44,488
Underprovision in prior years	**110**	452
Current — Hong Kong	**164**	2,130
PRC withholding tax on dividend income	**5,286**	4,447
Deferred	**2,116**	(542)
Total tax charge for the year	**45,276**	50,975

8. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Interim special dividend — HK3.40 cents (2018: HK3.40 cents) per ordinary share	**32,130**	30,520
Proposed final dividend — Nil (2018: HK9.20 cents per ordinary share)	**—**	84,653
	32,130	115,173

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,071,760,226 (2018: 1,066,669,870) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**91,283**	115,173

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**1,071,760,226**	1,066,669,870

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	**13,571**	13,760
Prepayments	**20,557**	28,673
Deposits and other receivables	**47,774**	64,888
	81,902	107,321
Less: Prepayment and deposits classified as non-current assets	**(35,090)**	(45,173)
	46,812	62,148

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. 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 invoice date and net of provisions, is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 30 days	**13,072**	12,786
31 to 60 days	**239**	254
61 to 90 days	**59**	417
Over 90 days	**201**	303
	13,571	13,760

11. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**68,908**	73,210
Other payables and accruals	**27,231**	29,695
Salary and welfare payables	**31,414**	33,242
Contract liabilities	**177,795**	153,779
	305,348	289,926

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**60,383**	59,478
31 to 60 days	**3,818**	7,688
61 to 90 days	**1,143**	2,401
91 to 180 days	**1,838**	2,047
Over 180 days	**1,726**	1,596
	68,908	73,210

The trade and other payables are non-interest-bearing and are normally settled on terms of 30 days to 90 days.

12. ISSUED CAPITAL

	As at 31 December 2019 HK$'000	As at 31 December 2019 RMB'000 equivalent	As at 31 December 2018 HK$'000	As at 31 December 2018 RMB'000 equivalent
Authorised:				
4,000,000,000 ordinary shares of HK$0.05 each	**200,000**		200,000	
Issued and fully paid:				
1,073,862,500 (2018: 1,068,617,500) ordinary shares of HK$0.05 each	**53,693**	**45,726**	53,431	45,496

A summary of the transactions during the year with reference to the movements in the Company's issued ordinary share capital is as follows:

	Note	**Number of shares in issue**	**Issued capital** *HK$'000*	**Issued capital** *RMB'000 equivalent*
Issued and fully paid:				
At 1 January 2018		531,686,250	53,169	45,276
Issue of shares under share award plan — before share subdivision		1,082,500	108	91
Immediately before the share subdivision		532,768,750	53,277	45,367
Effect of share subdivision	*(a)*	532,768,750	—	—
Immediately after the share subdivision		1,065,537,500	53,277	45,367
Issue of shares under share award plan — after share subdivision		3,080,000	154	129
At 31 December 2018 and 1 January 2019		**1,068,617,500**	**53,431**	**45,496**
Issue of shares under share award plan		**5,245,000**	**262**	**230**
At 31 December 2019		**1,073,862,500**	**53,693**	**45,726**

(a) On 4 June 2018, the extraordinary general meeting of the Company has approved the subdivision of the Company's previous ordinary share(s) of HK$0.10 each in the share capital of the Company (issued and unissued) into two(2) existing ordinary share(s) of HK$0.05 each, which become effective on 5 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY ANALYSIS

The prolonged Sino-US trade war from 2018 to 2019 has led to a decline in the PRC's economic growth. According to the economic data of 2019 released by the National Bureau of Statistics of the PRC, the PRC's overall economic growth for the year remained steady and was even higher than the global economic growth rate, reaching an annual GDP increase of 6.1% over the same period last year. However, compared with the year-on-year growth of 6.3% in the first half of 2019 and 6.6% in 2018, the annual GDP growth for 2019 experienced a further slowdown in the second half of the year, marking the slowest pace of economic growth since the 1990s. According to the analysis of Ning Jizhe, director of the National Bureau of Statistics of the PRC, "there is a genuine downward pressure in the current economy." However, under various initiatives to stabilize economic development, the PRC remains on pace to reach the overall expected target. Based on the data in 2019, currently, there is still a significant contribution from final consumption to economic growth with a share of nearly 60%, albeit a level much lower than over 76% in 2018. Coupled with the fact that the actual growth rate of per capita disposable income of residents is, excluding the price factor, lower than that of GDP, it is observed that the consumer sentiment is affected by internal and external factors. Nevertheless, domestic demand and consumption, in particular, has played a fundamental role in the PRC's economic development as the primary driving force of the PRC's economic growth, of which the food and beverage industry is a significant part. According to data from the National Bureau of Statistics, the food and beverage income of the PRC reached RMB4,672.1 billion in 2019, representing an increase of 9.4% over the same period last year, which was the same as the 9.4% year-on-year increase in the first half of the year and slightly lower than the 9.5% year-on-year increase in 2018.

BUSINESS REVIEW

In the face of the Sino-US trade war, Brexit and social movements in Hong Kong, in 2019, we met all kinds of market challenges arising from economic uncertainties with a cautious and positive attitude and focuses on the following four major directions: 1) to carefully examine investment plans; 2) to strengthen and stabilize existing businesses; 3) to insist on refining internal management as the long-term development objective; and 4) to cultivate ethical and professional food and beverage managerial staff. With continuous efforts to implement a strategy that emphasizes such long-term development goals, the Group was able to maintain stable business development. The revenue for 2019 was RMB1,495.1 million, representing an increase of RMB3.0 million or 0.2% as compared with the same period in 2018. The Group's development in the two new first-tier cities in the PRC, Chengdu and Hangzhou, remained satisfactory. Two local Chinese restaurants had entered their second year of business operation and recorded a double-digit increase in revenue, while the revenue of the second self-owned casual dining restaurant in Chengdu also continued to rise. As at 31 December 2019, the Group was operating 45 self-owned restaurants, 14 franchised restaurants and 14 joint venture restaurants. During the year, the Group opened one Chinese restaurant, one self-owned casual dining restaurants and six joint venture restaurants and one franchised restaurant. As mentioned in the year, the Group's strategy in relation to expansion had slightly changed. Except for the opening of a Chinese restaurant in Beijing in the first half of the year, business development consists mainly of casual dining restaurants, franchised restaurants and joint venture restaurants with smaller investment size. The Group's reputation and management scale had given itself confidence to pave the way for development in new commercial districts, cities and countries. During the year, the Group expanded our business into an international airport for the first time by opening the first restaurant in Shanghai Pudong International Airport. In addition, the Group partnered with different F&B operators and opened six joint venture restaurants, including two "PappaRich" in Shenzhen and Taiwan and one "Social Place"; the Group also successfully collaborated with an experienced catering group in Singapore and opened one "Social Place" restaurant there, thereby exporting its self-owned brand. Apart from outbound development of our brands, the Group also kept exploring overseas brands with potential, as we opened two well-known Japanese restaurants in Hong Kong during the year. In terms of franchised restaurants, we opened one "Pepper Lunch" restaurant during the year. One Chinese restaurant and two franchise restaurants were closed during the year after the end of their lease period.

Stabilizing existing business was our chief mission for the year, and the membership system implemented by the Group in Chinese restaurants has always been an effective way to secure customers and increase loyalty. In line with the rapid development of e-commerce, after the launch of the electronic membership cards in the second half of 2018, the Group successfully converted existing members to electronic members in 2019. At the same time, the Group attracted new members and encouraged topping up through various measures, such as reward points for registration, members' day/birthday discount, membership rewards, top up rewards and membership points redemption. As at 31 December 2019, the number of the Group's members increased over 168% as compared with that in 2018, and the amount of top-up value for the year reached RMB356.3 million, representing an increase of 16.5% as compared with that in 2018. Stored value consumption for the year reached RMB347.5 million, representing an increase of nearly 25% as compared with the same period last year. Takeaway markets are also important for the food and beverage industry in Mainland China. As shown in the results for the year of 2019 issued by the market leader Meituan Delivery, there was a year-on-year increase of over 36% in its average number of food delivery transactions per day, underlying a robust market demand. The Group considered this an important means to achieve stable revenue. Statistics show that major consumers of the takeaway market in Mainland China are young people at the ages of 20 to 35, and rice and noodles are most consumed items. During the year, the Group's takeaway strategies were adjusted based on market demands. In particular, we differentiate our products by adding convenient takeaway menus for white-collar workers, such as one-person meal boxes; and value for money dishes such as clay pot rice that are different from others. Meanwhile, the Group also concentrated its promotion resources on brand exposure and advertising. On the other hand, it also improved packaging details so as to highten customer experience and satisfaction. During the year, the overall takeaway revenue increased by 18.8% over that in the same period in 2018, and its proportion in the overall revenue increased from 5.9% in 2018 to 7.0% in 2019.

During the year, the Group optimized and designed products for sales in WeChat Mall, adding variety to family food products and package portfolio. We also introduced set meals for one and healthy food which were in rising demand in the current market. In 2019, revenue from WeChat Mall increased significantly as compared with that in 2018.

The Group's casual dining business remained stable. As at 31 December 2019, the Group was operating a total of 12 self-developed casual dining restaurants in Hong Kong, Shenzhen, Shanghai and Chengdu. The overall turnover in Hong Kong was influenced due to the social movement in the second half of 2019. In this circumstance, the overall revenue of casual dining business for the year was RMB247.3 million, representing a slight increase of 0.3% over the same period last year. The Group has also been expanding "Social Place" to overseas markets in recent years, with 3 joint venture outlets currently in operation in Taiwan and Singapore. Other than exporting "Social Place", the Group also introduced different famous restaurant brands with experienced partners who share the same operating philosophies with us. Currently, we have joint venture specialty restaurants from Malaysia, Korea, Japan and Sichuan, continuing to develop diversely. During the year, the Group has a total of 14 joint venture restaurants, including the exported "Social Place".

The Group's profit margin for the year was 62.7%, representing a slight decrease of 0.4% over the same period last year, which was mainly due to the impact of downward adjustment of value-added taxes in Mainland China. Although the labor costs continued to rise as a result of social policies made by the Chinese government, which has become an unavoidable challenge, the Group managed to stabilize labor costs by continuously optimizing manpower structure, combining procedures and positions, as well as making flexible shift arrangements. The increase of labor costs has been narrowed to 5.4% in 2019 from 16.8% in 2018.

FINANCIAL REVIEW

As at 31 December 2019, the Group was operating 59 restaurants and 14 other restaurants under joint ventures. The table below illustrates the number of restaurants by major brands, together with the average spending per customer and percentage of revenue to the Group:

	No. of restaurants as at 31 December		**Average spending per customer as at 31 December**		**Percentage of revenue contributed to the Group as at 31 December**	
Brand	**2019**	2018	**2019**	2018	**2019**	2018
			RMB	*RMB*		
Tang's Cuisine	**1**	1	**360.3**	339.4	**1.8%**	1.8%
Tang Palace*	**31**	30	**193.2**	181.7	**77.5%**	76.7%
Social Place	**8**	8	**138.0**	126.3	**11.4%**	11.8%
Canton Tea Room	**4**	4	**84.3**	81.3	**4.5%**	4.7%
Pepper Lunch	**14**	15	**63.4**	64.7	**4.3%**	4.5%

* including Tang Palace Seafood Restaurant and Tang Palace

As mentioned above, the Group's overall revenue for the year increased by 0.2% to RMB1,495.1 million and the overall gross profit margin has decreased by 0.4%. During the year, the Group's share award plan expense calculated at market price amounted to approximately RMB6.1 million (2018: RMB8.1 million). By excluding this expense item, the Group's percentage of staff costs on revenue is 31.2% (2018: 29.5%). An overall increase in staff costs was because the Group has adjusted its employee wages and benefits according to relevant social policies resulting in an increment of 1.7% in the Group's percentage of staff costs on revenue. During the year, majority part of rental and related expenses were categorized as depreciation of right-of-use assets and finance costs according to HKFRS 16. During the year, percentage of depreciation of right-of-use assets on revenue was 6.3% (2018: nil), percentage of finance costs on revenue was 1.9% (2018: 0.1%) and percentage of rental and related expenses on revenue was 1.7% (2018: 9.4%). Except the relatively large increase in percentage of staff costs on revenue and the changes in percentage of rental and related expenses on revenue as a result of the adoption of HKFRS 16, the remaining percentage of other expenses on revenue have fluctuated within a narrow range during the year. In which, percentage of depreciation of items of property, plant and equipment, utilities and consumables costs and other expenses on revenue are 3.2% (2018: 3.4%), 5.5% (2018: 5.2%) and 6.0% (2018: 6.0%) respectively. During the year, effective tax rate was 32.8% (2018: 30.3%), which included withholding tax on dividend income of RMB5.3 million and deferred tax expense of RMB2.1 million. The profit attributable to owners of the Company for the year decreased by 20.7% from RMB115.2 million to RMB91.3 million. The Group's net profit margin decreased from 7.8% for 2018 to 6.2% for the year.

Cash flow

Cash and cash equivalents decreased by RMB17.9 million from RMB400.4 million as at 31 December 2018 to RMB382.5 million as at 31 December 2019.

Net cash of RMB260.5 million was generated from operating activities during the year. Net cash used in investing activities amounted to RMB62.9 million during the year, of which RMB59.3 million was related to the purchase of property, plant and equipment. Net cash used in financing activities amounted to RMB218.7 million for the year.

Impact of Coronavirus

In response to the mass proliferation of the novel coronavirus pneumonia (the "**COVID-19**") epidemic in the People's Republic of China (the "**PRC**") and other countries (the "**Epidemic**"), most of our dine-in services in our restaurants in PRC have been temporarily suspended since late January 2020 and gradually resume business since mid-March 2020. The Group continues to monitor the development of the Epidemic and assess its impact on the market situation and our business operation, diligently and cautiously plan the resumption of services in accordance with further notice from the local government.

Liquidity and Financial Resources

The Group's funding and treasury activities are managed and controlled by the senior management. The Group maintained cash and cash equivalents and time deposits, in aggregate, of RMB496.5 million as at 31 December 2019 (31 December 2018: RMB544.4 million). As at 31 December 2019, the Group's total assets, net current assets and net assets were RMB1,142.6 million (31 December 2018: RMB893.1 million), RMB122.6 million (31 December 2018: RMB272.6 million) and RMB429.0 million (31 December 2018: RMB502.6 million), respectively.

As at 31 December 2019, the Group had bank borrowings of RMB80.0 million (31 December 2018: RMB79.2 million). The gearing ratio (calculated as bank borrowings divided by total equity) was 18.6% as at 31 December 2019 (31 December 2018: 15.8%).

As at 31 December 2019, the current ratio (calculated as current assets divided by current liabilities) was 1.3 (31 December 2018: 1.7).

The directors are of the opinion that the Group has sufficient working capital for the Group's operations and expansion in the near future.

Foreign Currency Exposure

The business operations of the Group's subsidiaries were conducted mainly in the Mainland China with revenues and expenses of the Group's subsidiaries denominated mainly in RMB. The Group's cash and bank deposits were denominated mainly in RMB, with some denominated in Hong Kong dollars. Any significant exchange rate fluctuations of Hong Kong dollars against RMB as the functional currency may have a financial impact to the Group.

As at 31 December 2019, the directors considered the Group's foreign exchange risk to be insignificant. During the year, the Group did not use any financial instruments for hedging purposes.

Prospects and Outlook

The food and beverage industry is one of the industries which reflect the economic environment most quickly. Having gone through the rapid transformation in society and the enormous change in the consumption mode of the food and beverage industry over the years, the Group is more convinced that the strategic thought of having internal management enhancement as the long-term development goal is the pillar of the Group's progress. Facing unforeseen challenges gave an opportunity for the Group to showcase its ability to react. The Group immediately applied sophisticated management in every store and made the best analyses and possible arrangement with operation data, clients' feedback and market information. Due to our emphasis on internal refinement, the Group's business in 2019 remained stable, and was able to stabilize staff, quickly change strategy and enhance training so as to prepare for a safe and orderly business resumption in mid of outbreak of coronavirus (COVID-19) during the first quarter of 2020. Nuturing ethical and professional food and beverage managers has been the goal of the Group. In recent years, the Group introduced multi-disciplinary training to develop multi-functional talents in terms of knowledge and skills, management talents in terms of management problem solving and humble and ethical talents in terms of morality and culture. These internal and external trainings have established our corporate culture and bound our team together, giving the Group the confidence to move forward in our long-term development with our growing management team.

OTHER INFORMATION

Number and Remuneration of Employees

As at 31 December 2019, the Group had around 4,500 employees in Hong Kong and the PRC. The Group recognises the importance of human resources to its success, therefore qualified and experienced personnel are recruited for expansion of new restaurants. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis, which is in line with industrial practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes, share options, share awards and performance related bonus.

Capital Commitment

The Group's capital commitment was approximately RMB3.0 million and RMB11.1 million as at 31 December 2019 and 31 December 2018, respectively.

Charge on Group's Assets

As at 31 December 2019, the Group had pledged time deposits of RMB80.0 million (31 December 2018: RMB80.0 million) for banking facilities amounting to RMB80.0 million (31 December 2018: RMB79.2 million).

Contingent Liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities.

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

During the year, there was no material acquisition or disposal of subsidiaries, associates and joint ventures of the Company.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

Corporate Governance Code

The Board is committed to maintaining a high standard of corporate governance practices to safeguard the interests of Company and its shareholders and to enhance corporate value and accountability. The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") throughout the year.

Model Code For The Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted its own code for securities transactions by directors on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries to all of the directors and all of the directors confirmed that they have complied with the required standards set out in the Model Code during the year.

Scope of Work of Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit of loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Company's auditors, Ernst & Young ("**EY**"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference (as amended or supplemented) in compliance with the Corporate Governance Code. The Audit Committee comprises all the three independent non-executive directors, namely Mr. KWONG Ping Man, Mr. KWONG Chi Keung and Mr. CHEUNG Kin Ting Alfred.

The Audit Committee has reviewed the Company's consolidated financial statements for the year ended 31 December 2019.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting will be held on 15 June 2020 (the "**AGM**"). A formal notice of the AGM will be published and dispatched to shareholders of the Company(the "**Shareholders**") as required by the Listing Rules in due course.

DIVIDEND

The Company has paid an interim special dividend of HK$3.40 cents per ordinary share on 15 November 2019. In order to preserve sufficient working capital for the impact of the Epidemic on the Group and the Group's future development opportunities, the Board does not recommend the payment of final dividend for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from 9 June 2020 to 15 June 2020 (both days inclusive), during which period no transfer of share(s) will be effected. In order to be eligible to attend and vote at the AGM, all transfers documents, accompanied by the relevant share certificates, must be lodged with Tricor Investor Services Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 8 June 2020.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.tanggong.cn).

The Group's annual report, containing the information required by the Listing Rules, will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to thank the management and all the staff of the Group for their hard work and dedication, as well as its shareholders, business partners and associates, bankers and auditors for their continuous support to the Group during the year.

By Order of the Board
Tang Palace (China) Holdings Limited
YIP Shu Ming
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, the Board comprises the following directors:

Executive directors:	*Mr. YIP Shu Ming, Mr. CHAN Man Wai, Mr. KU Hok Chiu, Ms. WENG Peihe*
Independent non-executive directors:	*Mr. KWONG Chi Keung, Mr. KWONG Ping Man, Mr. CHEUNG Kin Ting Alfred*