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TAO HEUNG HOLDINGS LIMITED

稻香控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 573)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS

	For the six months ended 30 June		% Change Increase/ (Decrease)
	2016	2015	
	(HK\$ Million)	(HK\$ Million)	
Revenue	2,193.4	2,251.8	(2.6)
Hong Kong	1,427.9	1,437.2	(0.6)
Mainland China	765.5	814.6	(6.0)
EBITDA	273.4	278.1	(1.7)
Profit attributable to owners of the parent	92.3	92.3	–
Basic earnings per share (HK cents)	9.04	9.03	0.1
Proposed interim dividend per share (HK cents)	6.0	6.0	–
No. of restaurants and bakery outlets at 30 June	164	164	
No. of restaurants and bakery outlets at announcement date	164	169	

* For identification purposes only

INTERIM RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tao Heung Holdings Limited (the “Company”), together with its subsidiaries (collectively the “Group”), hereby announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2016 together with comparative figures for the corresponding period in 2015. These interim condensed consolidated financial statements for the six months ended 30 June 2016 have not been audited, but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

		Six months ended 30 June	
	Notes	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
REVENUE	5	2,193,427	2,251,835
Cost of sales		<u>(1,936,456)</u>	<u>(2,003,855)</u>
Gross profit		256,971	247,980
Other income and gains, net	5	7,113	9,102
Selling and distribution expenses		(51,498)	(49,450)
Administrative expenses		(99,328)	(96,487)
Finance costs	6	(2,899)	(1,915)
Share of losses of associates		<u>(1)</u>	<u>(2)</u>
PROFIT BEFORE TAX	7	110,358	109,228
Income tax expense	8	<u>(19,622)</u>	<u>(19,617)</u>
PROFIT FOR THE PERIOD		<u>90,736</u>	<u>89,611</u>
Attributable to:			
Owners of the parent		92,294	92,299
Non-controlling interests		<u>(1,558)</u>	<u>(2,688)</u>
		<u>90,736</u>	<u>89,611</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	10	<u>HK9.04 cents</u>	<u>HK9.03 cents</u>
– Diluted	10	<u>HK9.03 cents</u>	<u>HK9.02 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	90,736	89,611
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(25,707)</u>	<u>(11,851)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>65,029</u>	<u>77,760</u>
Attributable to:		
Owners of the parent	66,880	80,651
Non-controlling interests	<u>(1,851)</u>	<u>(2,891)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>65,029</u>	<u>77,760</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	<i>Notes</i>	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	1,401,284	1,468,003
Prepaid land lease payments		74,402	77,010
Investment properties	<i>11</i>	21,900	21,900
Goodwill		39,538	39,903
Other intangible asset		1,133	1,223
Investments in associates		3,506	1,248
Biological assets		3,116	3,600
Deferred tax assets		90,155	87,532
Rental deposits		115,181	112,102
Deposits for purchases of items of property, plant and equipment		124,764	142,086
		<hr/> 1,874,979	<hr/> 1,954,607
Total non-current assets			
CURRENT ASSETS			
Inventories		123,097	144,265
Biological assets		8,509	15,049
Trade receivables	<i>12</i>	23,753	25,735
Prepayments, deposits and other receivables		132,347	114,304
Tax recoverable		12,821	7,216
Pledged deposits		13,525	13,083
Cash and cash equivalents		477,197	397,453
		<hr/> 791,249	<hr/> 717,105
Total current assets			
CURRENT LIABILITIES			
Trade payables	<i>13</i>	208,955	159,831
Other payables and accruals		259,641	286,114
Derivative financial instrument		–	1,241
Interest-bearing bank borrowings		189,727	194,021
Finance lease payable		198	202
Tax payable		27,036	21,995
		<hr/> 685,557	<hr/> 663,404
Total current liabilities			
NET CURRENT ASSETS		<hr/> 105,692	<hr/> 53,701
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 1,980,671	<hr/> 2,008,308

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Other payables and accruals	90,372	94,804
Interest-bearing bank borrowings	67,269	85,451
Finance lease payable	264	354
Due to non-controlling shareholders of subsidiaries	22,990	22,747
Deferred tax liabilities	16,831	16,943
	<hr/>	<hr/>
Total non-current liabilities	197,726	220,299
	<hr/>	<hr/>
Net assets	1,782,945	1,788,009
	<hr/>	<hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	101,661	102,161
Reserves	1,676,972	1,679,685
	<hr/>	<hr/>
	1,778,633	1,781,846
Non-controlling interests	4,312	6,163
	<hr/>	<hr/>
Total equity	1,782,945	1,788,009
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. 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 in Hong Kong is located at No. 18 Dai Fat Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

During the period, the Group was involved in the following principal activities:

- restaurant operations and provision of food catering services
- bakery operations
- production, sale and distribution of food products and other items related to restaurant operations
- provision of poultry farm operations

2. BASIS OF PRESENTATION AND PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016 (the “Unaudited Interim Financial Statements”) have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The Unaudited Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Unaudited Interim Financial Statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are effective for the first time for the annual periods beginning on or after 1 January 2016.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no significant financial effect on the Unaudited Interim Financial Statements and there have been no significant changes to the accounting policies applied in the Unaudited Interim Financial Statements.

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in the Unaudited Interim Financial Statements.

HKFRS 9	<i>Financial Instruments</i> ²
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
HKFRS 16	<i>Leases</i> ³
Amendments to HKFRS 15	Clarifications to HKFRS 15 <i>Revenue from Contracts with Customers</i> ²
Amendments to HKAS 7	<i>Disclosure Initiative</i> ¹
Amendments to HKAS 12	<i>Recognition of Deferred Tax for Unrealised Losses</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of food catering services through a chain of restaurants. Information reported to the Group's chief operating decision maker (i.e. the chief executive officer) for the purpose of resources allocation and performance assessment, focuses on the operation results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2016 and 2015 and certain non-current asset information as at 30 June 2016 and 31 December 2015, by geographic area.

(a) *Revenue from external customers*

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Hong Kong	1,427,922	1,437,201
Mainland China	765,505	814,634
	<u>2,193,427</u>	<u>2,251,835</u>

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

(b) *Non-current assets*

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
	Hong Kong	539,160
Mainland China	1,130,483	1,181,019
	<u>1,669,643</u>	<u>1,754,973</u>

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

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents gross revenue from restaurant, bakery and poultry farm operations and the net invoiced value of goods and other items sold, after deduction of relevant taxes and allowances for trade discounts.

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

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
REVENUE		
Restaurant and bakery operations and other items	2,070,413	2,131,439
Sale of food	77,263	65,639
Poultry farm operations	45,751	54,757
	<u>2,193,427</u>	<u>2,251,835</u>
OTHER INCOME AND GAINS, NET		
Bank interest income	3,047	1,159
Fair value gain on derivative financial instrument – transaction not qualifying as hedge	142	4,142
Gain on disposal of items of property, plant and equipment, net	2	379
Gross rental income from investment properties	206	215
Sponsorship income	3,005	2,504
Others	711	703
	<u>7,113</u>	<u>9,102</u>

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Interest on bank loans	2,892	1,906
Interest on a finance lease	7	9
	<u>2,899</u>	<u>1,915</u>
Total interest expense on financial liabilities not at fair value through profit or loss		
	<u>2,899</u>	<u>1,915</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Cost of inventories sold	721,549	750,842
Depreciation	159,296	166,072
Amortisation of land lease payments	852	882
Amortisation of intangible asset	42	44
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	566,552	585,333
Retirement benefit scheme contributions (defined contribution schemes)	39,950	38,574
	<u>606,502</u>	<u>623,907</u>
Lease payments under operating leases:		
Minimum lease payments	189,892	183,692
Contingent rents	2,215	3,353
	<u>192,107</u>	<u>187,045</u>
Fair value gain on derivative financial instrument – transaction not qualifying as hedge	(142)	(4,142)
Foreign exchange differences, net	772	811
Gain on disposal of items of property, plant and equipment, net	(2)	(379)
Write-off of items of property, plant and equipment	2,327	90
	<u>2,327</u>	<u>90</u>

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2015: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2016. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	13,325	17,829
Current – Mainland China	9,032	10,697
Deferred	(2,735)	(8,909)
	<u>19,622</u>	<u>19,617</u>
Total tax charge for the period	<u>19,622</u>	<u>19,617</u>

9. DIVIDEND

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Proposed interim – HK6.00 cents (six months ended 30 June 2015: HK6.00 cents) per ordinary share	<u>60,997</u>	<u>61,297</u>

The proposed dividend for the period has been approved at the Company's board meeting held on 18 August 2016.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the unaudited consolidated profit for the six months ended 30 June 2016 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,021,418,692 (period ended 30 June 2015: 1,021,611,000) in issue during the period.

The calculation of the diluted earnings per share amount is based on the unaudited consolidated profit for the six month ended 30 June 2016 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,021,418,692 (period ended 30 June 2015: 1,021,611,000), as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 576,152 (period ended 30 June 2015: 2,060,234) assumed to have been issued at no consideration on the deemed exercise of all shares options into ordinary shares.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>92,294</u>	<u>92,299</u>
	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,021,418,692	1,021,611,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>576,152</u>	<u>2,060,234</u>
	<u>1,021,994,844</u>	<u>1,023,671,234</u>

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2016, additions of property, plant and equipment and investment properties amounted to HK\$93,025,000 in aggregate (six months ended 30 June 2015: HK\$147,548,000).

As at 30 June 2016, leasehold land and buildings with the net carrying amount of approximately HK\$87,849,000 (31 December 2015: HK\$87,691,000) situated in Hong Kong were pledged to secure banking facilities granted to the Group.

As at 30 June 2016, the Group's investment properties with a total carrying amount of HK\$18,500,000 (31 December 2015: HK\$18,500,000) situated in Hong Kong were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group also grants a credit period between 30 to 90 days to certain customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	14,371	16,188
1 to 3 months	4,299	5,124
Over 3 months	5,083	4,423
	<u>23,753</u>	<u>25,735</u>

13. TRADE PAYABLES

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	119,129	140,987
1 to 2 months	52,954	9,831
2 to 3 months	23,294	4,878
Over 3 months	13,578	4,135
	<u>208,955</u>	<u>159,831</u>

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

14. CONTINGENT LIABILITIES

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	23,653	23,809

15. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases its investment properties to third parties under operating lease arrangements, with leases negotiated for terms ranging from one month to three years. Certain leases are terminable within notice periods given by either the Group or the lessees. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments recording to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within one year	34	34

(ii) As lessee

The Group leases certain of its office premises and restaurant and bakery properties under operating lease arrangements with lease terms ranging from one to fifty years and certain of the leases contain renewal options.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within one year	350,238	348,071
In the second to fifth years, inclusive	717,685	729,721
Beyond five years	368,357	430,179
	1,436,280	1,507,971

The operating leases of certain restaurant and bakery properties also call for additional rentals, which will be based on certain percentage of revenue of the operations being undertaken therein pursuant to the terms and conditions as stipulated in the respective rental agreements. As the future revenue of these restaurants could not be accurately determined as at the end of the reporting period, the relevant contingent rental has not been included.

16. COMMITMENTS

In addition to the operating lease commitments detailed in note 15(ii) above, the Group had the following capital commitments as at the end of the reporting period:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Contracted but not provided for:		
Leasehold improvements, furniture, fixtures and equipment	10,260	28,250
Buildings	22,537	28,005
	32,797	56,255

17. RELATED PARTY TRANSACTIONS

(a) Transaction with a related party

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with a related party during the period:

	Six months ended 30 June 2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Rental expense to a related party	24	24

The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, was charged based on mutually agreed terms at a monthly fixed amount of HK\$4,000 (2015: HK\$4,000).

The related party transaction as disclosed above also constitute continuing connected transaction as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) Compensation of key management personnel of the Group

	Six months ended 30 June 2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Short term employee benefits	2,077	2,623
Post-employment benefits	33	48
	2,110	2,671

18. EVENT AFTER THE REPORTING PERIOD

There has been no material event after the end of the reporting period which requires disclosure in this announcement.

BUSINESS REVIEW

The Board is pleased to announce the interim results of the Group for the six months ended 30 June 2016. During the latest reporting period, consumption sentiment in Hong Kong and Mainland China has remained lacklustre, a clear reflection of the economic climate on both sides of the border. Consequently, the management has taken measures to minimise the downward pressure, enabling the Group to maintain relatively stable business performance during the period.

Financial Results

The drop in tourist visitations to Hong Kong and weak consumption impacted heavily on the catering industry as a whole. Nonetheless, through effective marketing and promotions, total revenue declined marginally by 2.6% to HK\$2,193.4 million (2015: HK\$2,251.8 million). Profit attributable to owners of the parent was maintained at HK\$92.3 million (2015: HK\$92.3 million). The Hong Kong operations has remained the principal revenue source of the Group, accounting for 65.1% (2015: 63.8%) of total revenue, with the Mainland China operations accounting for 34.9% (2015: 36.2%).

The Board has proposed an interim dividend of HK6.0 cents per share for the six months ended 30 June 2016, which represents a dividend payout ratio of 66.1%.

Hong Kong Operations

The Hong Kong operations contributed revenue of HK\$1,427.9 million (2015: HK\$1,437.2 million) as at the close of the reporting period, a dip of 0.6% when compared with the same period last year. This was despite a reduction in total operating area to 650,000 sq. ft. (2015: 657,000 sq. ft.) Earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 2.4% to HK\$156.4 million (2015: HK\$160.3 million), while profit attributable to owners of the parent amounted to HK\$76.0 million (2015: HK\$76.8 million).

During the period, the difficult economic climate impacted on local consumption sentiment, which in turn affected the performance of the Group's Hong Kong operations. Compounding matters was the decline in mainland tourists. High operating costs including rent and labour, the latter due in part to a labour shortage remained systemic problems as well. In the face of such challenges, the management continued efforts at streamlining operations, which were effective at minimising cost pressure. Besides, the Group conducted a marketing campaign, leveraging the 25th anniversary of Tao Heung to introduce a television commercial as well as a series of promotional dishes and campaigns during the period successful in maintaining sales. As at period end, the Group operated a restaurant network of 70 outlets, including three RingerHut restaurants and one T Café 1954 that offer non-Chinese cuisine.

With regards to the Tai Cheong Bakery operation, the Group operated a total of 25 outlets in the city as at period end (2015: 30). Though revenue declined to HK\$50.1 million (2015: HK\$56.8 million) during the reporting period, the management is exploring various marketing efforts as well as collaborations with other retail brands that open fresh business opportunities. It is worth noting that following the review period, the Tai Cheong Bakery operation began its expansion across Southeast Asia. The first outlet outside of Hong Kong opened at the Takashimaya department store in Ngee Ann City, Singapore, on 1 July 2016. Given that the joint venture has achieved favourable results during its first month of operation, the management is cautiously optimistic that it will continue to deliver promising returns going forward and will serve as the foundation for additional openings in the city.

The management's efforts in streamlining operations and boosting efficiency over the years has paid off, with food, rental and labour costs all staying relatively stable during the year. The Group will continue with its effective cost management strategies to further improve performance of its Hong Kong operations.

Mainland China Operations

Revenue from the Mainland China operation declined by 6.0% to HK\$765.5 million (2015: HK\$814.6 million) due principally to the ongoing economic slowdown. However, profit attributable to owners of the parent realised a slight increase to HK\$16.3 million (2015: HK\$15.5 million).

In response to the changing conditions in Mainland China, the management has adjusted its business strategy by opening smaller scale restaurants instead since last year. Besides, the Group has introduced a new business model this period, the centrepiece of which is an integrated complex located at Dongguan covering over 22,000 sq.m. that features a Chinese restaurant, a supermarket, an indoor playground, a museum and parking facilities. Targeted primarily towards middle – and high-income families, the first integrated complex was opened in January, followed by a second complex in May of this year. Given the positive response received, the management plans to open a third complex, also in Southern China, before the close of 2016. Both of the second and third complexes are converted from existing large-scale restaurants of the Group, the management expects such changes will help deliver more diverse revenue streams.

Besides the introduction of the new business model, the management has also introduced new technologies to tackle costs, in particular, labour. With Mainland China's one-child policy over the years and literacy rate continuing to rise, supply for low-skill labour is correspondingly declining; hence labour shortage will be an ongoing concern that can potentially worsen. Consequently, the Group has dedicated resources in developing automated equipments that may help solve such problem in the long run. A "Robot Waiter" and two automated machines, namely, the "Automated Stir Frying Machine" and "Seafood Conveyer Belt" are currently being used in some of the Group's restaurants in Mainland China. Results so far have been satisfactory. Furthermore, recognising the increasing acceptance of e-commerce in Mainland China, all of the Group's restaurants now accept a number of mobile payment methods, and a mobile app will be launched in the second half year that allows customers to benefit from its all-in-one features, which include ticketing, ordering and payment.

As at 30 June 2016, the Group operated 47 restaurants (2015: 42 restaurants) in Mainland China, which included three new restaurants located in Shanghai, Wuxi and Wuhan. The Group also operated a total of 22 Bakerz 180 outlets as at period end. Owing to soft demand, revenue from the bakery chain slipped to HK\$16.1 million (2015: HK\$16.4 million). The management will seek to leverage the consignment arrangement with PARKnSHOP, which includes its extensive supermarket chain network to stimulate consumption.

Logistics Centres

Output of the Dongguan logistics centre increased during the review period, the result of greater demand arising from the Group's first supermarket in Dongguan. The management is therefore planning to introduce the new business model to other viable locations, and push output and utilisation rate of its Dongguan logistics centre to higher levels.

Poultry and Peripheral Business

The poultry and peripheral business contributed HK\$123.0 million (2015: HK\$120.3 million) in revenue during the reporting period. The segment includes revenue from the Group's direct sourcing farms as well as the sale of pre-packed chilled and frozen products, breads and other baked goods sold not only through the Group's first supermarket, which is part of the Dongguan integrated complex, but also to other customers directly from the logistics centre. The satisfactory performance of the segment has been attributable to both favourable pork prices and the better-than-expected performance of the Group's supermarket sales. With the opening of the second and third integrated complexes with supermarkets, the management has high expectations on the prospects of the pre-packed foods business.

Financial Resources and Liquidity

As at 30 June 2016, the total assets decreased by 0.2% to approximately HK\$2,666.2 million (31 December 2015: approximately HK\$2,671.7 million) while the total equity decreased by 0.3% to approximately HK\$1,782.9 million (31 December 2015: approximately HK\$1,788.0 million).

As at 30 June 2016, the Group had the cash and cash equivalents amounting to approximately HK\$477.2 million. After deducting the total interest-bearing bank borrowings of HK\$257.0 million, the Group had a net cash surplus position of approximately HK\$220.2 million.

As at 30 June 2016, the Group's total interest-bearing bank borrowings were decreased to approximately HK\$257.0 million (31 December 2015: approximately HK\$279.5 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings and finance lease payables divided by the total equity attributable to the owners of the Company) was decreased to 14.5% (31 December 2015: 15.7%).

Capital Expenditure

Capital expenditure for the six months ended 30 June 2016 amounted to approximately HK\$93.0 million (period ended 30 June 2015: HK\$147.5 million) and the capital commitments as at 30 June 2016 amounted to HK\$32.8 million (31 December 2015: HK\$56.3 million). The capital expenditure was mainly for the renovation of the Group's new and existing restaurants and construction of Phase 2 of Dongguan Logistics Centre while the capital commitments relate to new and existing restaurants in Mainland China.

Pledge of Assets

As at 30 June 2016, the Group pledged its bank deposits of approximately HK\$13.5 million, leasehold land and buildings of approximately HK\$87.8 million and investment properties of approximately HK\$18.5 million to secure the banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2016, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$23.7 million (31 December 2015: approximately HK\$23.8 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the six months ended 30 June 2016 were mostly denominated in Hong Kong Dollars ("HK\$") and Renminbi ("RMB"). The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of the controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against HK\$ may have impact on the Group results.

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

Human Resources

As at 30 June 2016, the Group had 8,828 employees. In order to attract and retain the high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 30 June 2016, there are 3,220,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Also, as at 30 June 2016, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Prospects

A change in consumption sentiment in Hong Kong and Mainland China is unlikely in the remaining half year, as consumers will continue to be negatively influenced by concerns over the weak local and global economies. The management is undaunted, however, as it has in place strategies specific to the two markets that will be employed for contending with the difficult conditions.

As the management has proven in the past, it has the foresight and determination to take the steps necessary for realising long-term growth, even if they include short-term costs. Aside from quickly right-sizing a number of restaurants in Hong Kong and PRC over the past financial periods, the management has complemented such efforts with attractive promotion campaigns to raise customer traffic. Capitalising on the 25th anniversary of the Group, the management will both launch themed menus and revamp its current menu to appeal to existing and new customers from diverse social and economic backgrounds, and thus further strengthen brand awareness. To further bolster the prominence of Tao Heung while at the same time capitalise on the pre-packed foods segment, the Group will launch a range of new pre-packed products at its Hong Kong restaurant network that will allow it to appeal to an even wider audience of customers.

With respect to the Tai Cheong Bakery operation, the management remains optimistic about its ability to develop and diversify. In particular, the cross-border partnership in Singapore has provided optimism for pursuing additional outlets, and there are plans for expansion of up to five stores. The management is also pursuing other overseas opportunities to expand the operation even further. Aside from geographical expansion, the Group is actively examining collaborations with retail brands as well, which could attract additional customer segments.

Regarding the Mainland China operation, though the aforementioned weak consumption sentiment will continue, the Group is maintaining its strategy of focusing on the middleclass consumer segment rather than the business segment, which is reflected by the introduction of the integrated complex in Dongguan. A total of three such complexes are expected to be in operation by the end of the financial year, thus allowing the Group to further appeal to families and the young, generate additional revenue, and mitigate the impact of the challenging environment. The Group has by no means slowed down its network expansion efforts. Between two and three restaurants will open in the upcoming period – a number that is indicative of management’s cautiously optimistic approach.

Going forward, the Group will continue to examine partnership opportunities, whether with reference to its restaurants, ancillary businesses or new interests that allow for business diversification, broadening of customer base, and bolstering of its brand and reputation. At the same time, it remains committed to consolidating its existing operations which remain the backbone of the Group’s financial strength.

OTHER INFORMATION

Dividend

In acknowledging continuous support from our shareholders, the Directors have declared the payment of an interim dividend of HK6.00 cents per ordinary share in respect of the year ending 31 December 2016, payable on 12 October 2016 to shareholders whose names appear on the register of members of the Company on 30 September 2016.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 3 October 2016 to Wednesday, 5 October 2016, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 30 September 2016.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2016, the interests and short positions of the Directors in the share capital and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Notes	Number of shares held, capacity and nature of interest					Total	% of the Company's share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust			
Executive Directors								
Mr. Chung Wai Ping	(a) and (b)	–	12,174,222	–	391,189,689	403,363,911	39.68	
Mr. Wong Ka Wing	(c)	5,522,679	–	103,283,124	–	108,805,803	10.70	
Mr. Leung Yiu Chun		800,000	–	–	–	800,000	0.08	
Mr. Ho Yuen Wah		2,000,000	–	–	–	2,000,000	0.20	
Non-executive Director								
Mr. Fong Siu Kwong		180,000	–	–	–	180,000	0.02	

Notes:

- (a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited (“Tin Tao”) which in turn is wholly-owned by BNP Paribas Corporate Services Pte. Ltd (“BPCSPL”), a company incorporated in Singapore. BPCSPL is holding the shares in Tin Tao as nominee for BNP Paribas Singapore Trust Corporation Limited (“BPSTCL”) as trustees for a discretionary trust, the discretionary objects of which include Mr. Chung Wai Ping and certain members of his family. For the purposes of the SFO, Mr. Chung is the settlor of this trust. The ultimate holding company for BPSTCL is BNP Paribas SA.
- (b) 12,174,222 shares were held by Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping.
- (c) Of these shares, 5,522,679 shares were held by Mr. Wong Ka Wing personally and 103,283,124 shares were held by Joy Mount Investments Limited, which is wholly-owned by Mr. Wong Ka Wing.

Saved as disclosed above, as at 30 June 2016, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2016, the interests and short positions of every persons, other than directors or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Notes	Number of ordinary shares (long position)			% of total issued share
		Directly beneficially owned	Through controlled corporation	Total	
Billion Era International Limited	(a)	391,189,689	–	391,189,689	38.48
Tin Tao Investments Limited	(a)	–	391,189,689	391,189,689	38.48
BNP Paribas Corporate Services Pte Ltd	(a)	–	391,189,689	391,189,689	38.48
BNP Paribas Singapore Trust Corporation Limited	(a)	–	391,189,689	391,189,689	38.48
Joy Mount Investments Limited	(b)	103,283,124	–	103,283,124	10.16
Perfect Plan International Limited	(c)	102,053,976	–	102,053,976	10.04
Value Partners Limited	(d)	57,694,000	–	57,694,000	5.68
Whole Gain Holdings Limited		56,795,068	–	56,795,068	5.59

Notes:

- (a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited (“Tin Tao”) which in turn is wholly-owned by BNP Paribas Corporate Services Pte. Ltd (“BPCSPL”), a company incorporated in Singapore. BPCSPL is holding the shares in Tin Tao as nominee for BNP Paribas Singapore Trust Corporation Limited (“BPSTCL”) as trustees for a discretionary trust, the discretionary objects of which include Mr. Chung Wai Ping and certain members of his family. For the purposes of the SFO, Mr. Chung is the settlor of this trust. The ultimate holding company for BPSTCL is BNP Paribas SA.
- (b) These shares were wholly-owned by Joy Mount Investments Limited, which is beneficially owned by Mr. Wong Ka Wing.
- (c) These shares were wholly-owned by Perfect Plan International Limited, which is an indirect wholly-owned subsidiary of Café de Coral Holdings Limited.
- (d) These shares were wholly-owned by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Group Limited.

Save as disclosed above, as at 30 June 2016, other than the Directors and chief executive of the Company, whose interests are set out in the section “Directors’ Interests and Short Positions in Shares and Underlying Shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Share Option Schemes

(a) Pre-IPO Share Option Scheme

Pursuant to a Pre-initial public offering share option scheme (the “Pre-IPO Share Option Scheme”) on 9 June 2007, the Company has granted 15,190,000 options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme. The exercise price shall be 50% of the final offer price to the public. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the grant date.

At 30 June 2016, there are 3,220,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK\$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2017, both days inclusive.

Details of the share options outstanding as at 30 June 2016 which have been granted under the Pre-IPO Share Option Scheme are as follows:

Name	Date of Grant	Number of share options					Outstanding at 30 June 2016
		Outstanding at 1 January 2016	Granted during the period	Exercised during the period	Lapsed on expiry	Cancelled upon termination of employment	
Other employees	9 June 2007	<u>3,520,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>	<u>3,220,000</u>

(b) Share Option Scheme

Pursuant to a share option scheme (the “Share Option Scheme”) adopted by the Company on 9 June 2007, the Directors may invite participants to take up options at a price determined by the Board of Directors but in any event shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant and; (iii) the nominal value of the shares. The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which may be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the grant date. As at the date of this announcement, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Corporate Governance

The Board is committed to maintaining high standard of corporate governance practices to safeguard the interests of the Company's shareholders and to enhance corporate value and accountability. These can be achieved by an effective Board, segregation of duties with clear responsibility, sound internal control, appropriate risk assessment procedures and transparency to all the shareholders.

The Company has complied with all the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set forth in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors have complied with the required standards as set out in the Code throughout the six months ended 30 June 2016.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2016, the Company has repurchased a total of 5,000,000 shares on the Stock Exchange. Details of the repurchase are disclosed as follows:

Date of Repurchase	Number of Shares Repurchased	Repurchase Price Per Share	
		Highest	Lowest
6 April 2016	5,000,000	HK\$1.80	HK\$1.80

The above repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium and transaction costs paid on the repurchase of the shares of HK\$8,500,000 and HK\$95,923 respectively were charged to the Group's share premium account.

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

Publication of interim results

The electronic version of this announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.taoheung.com.hk).

Appreciation

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

By order of the Board
Chung Wai Ping
Chairman

Hong Kong, 18 August 2016

As at the date of this announcement, the executive directors of the Company are Mr. CHUNG Wai Ping, Mr. WONG Ka Wing, Mr. LEUNG Yiu Chun and Mr. HO Yuen Wah, the non-executive directors are Mr. FONG Siu Kwong and Mr. CHAN Yue Kwong, Michael and the independent non-executive directors are Professor CHAN Chi Fai, Andrew, Mr. MAK Hing Keung, Thomas and Mr. NG Yat Cheung