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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 2017

HIGHLIGHTS

	For the six months ended 30 June		% Change
	2017	2016	**Decrease**
	(HK$ Million)	*(HK$ Million)*	
Revenue	**1,973.0**	2,193.4	(10.0)
Hong Kong	**1,260.5**	1,427.9	(11.7)
Mainland China	**712.5**	765.5	(6.9)
EBITDA	**199.1**	273.4	(27.2)
Profit attributable to owners of the parent	**40.8**	92.3	(55.8)
Basic earnings per share (HK cents)	**4.02**	9.04	(55.5)
Proposed interim dividend per share (HK cents)	**5.5**	6.0	(8.3)
No. of restaurants and bakery outlets at 30 June	**159**	164	
No. of restaurants and bakery outlets at announcement date	**162**	164	

* *For identification purpose 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 2017 together with comparative figures for the corresponding period in 2016. These interim condensed consolidated financial statements for the six months ended 30 June 2017 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 2017

		Six months ended 30 June	
		2017	2016
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*5*	**1,972,987**	2,193,427
Cost of sales		**(1,786,576)**	(1,936,456)
Gross profit		**186,411**	256,971
Other income and gains, net	*5*	**10,235**	7,113
Selling and distribution expenses		**(52,291)**	(51,498)
Administrative expenses		**(93,105)**	(99,328)
Finance costs	*6*	**(1,855)**	(2,899)
Share of profits/(losses) of associates, net		**993**	(1)
PROFIT BEFORE TAX	*7*	**50,388**	110,358
Income tax expense	*8*	**(10,120)**	(19,622)
PROFIT FOR THE PERIOD		**40,268**	90,736
Attributable to:			
Owners of the parent		**40,832**	92,294
Non-controlling interests		**(564)**	(1,558)
		40,268	90,736
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	*10*	**HK4.02 cents**	HK9.04 cents
– Diluted	*10*	**HK4.01 cents**	HK9.03 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**40,268**	90,736
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**20,281**	(25,707)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**60,549**	65,029
Attributable to:		
Owners of the parent	**61,095**	66,880
Non-controlling interests	**(546)**	(1,851)
	60,549	65,029

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Notes	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,239,999**	1,323,107
Prepaid land lease payments		**91,172**	90,483
Investment properties	11	**24,100**	24,100
Goodwill		**39,101**	38,803
Other intangible asset		**1,019**	1,039
Investments in associates		**7,707**	4,014
Biological assets		**3,048**	2,989
Deferred tax assets		**93,632**	87,589
Rental deposits		**107,375**	99,889
Deposits for purchases of items of property, plant and equipment		**81,060**	52,628
Total non-current assets		**1,688,213**	1,724,641
CURRENT ASSETS			
Inventories		**134,984**	143,607
Biological assets		**7,198**	6,189
Trade receivables	12	**30,422**	31,003
Prepayments, deposits and other receivables		**174,584**	141,859
Tax recoverable		**12,290**	6,805
Pledged deposits		**13,067**	12,660
Cash and cash equivalents		**543,159**	492,449
Total current assets		**915,704**	834,572
CURRENT LIABILITIES			
Trade payables	13	**190,375**	215,391
Other payables and accruals		**252,725**	261,187
Interest-bearing bank borrowings		**313,077**	179,429
Finance lease payable		**–**	189
Tax payable		**16,214**	19,113
Total current liabilities		**772,391**	675,309
NET CURRENT ASSETS		**143,313**	159,263
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,831,526**	1,883,904

	Notes	**30 June 2017 (Unaudited)** ***HK$'000***	31 December 2016 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**78,130**	84,313
Interest-bearing bank borrowings		**–**	8,597
Finance lease payable		**–**	157
Due to non-controlling shareholders of subsidiaries		**22,684**	22,474
Deferred tax liabilities		**16,875**	16,875
Total non-current liabilities		**117,689**	132,416
Net assets		**1,713,837**	1,751,488
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,661**	101,661
Reserves		**1,613,124**	1,650,229
		1,714,785	1,751,890
Non-controlling interests		**(948)**	(402)
Total equity		**1,713,837**	1,751,488

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 address of the Company is 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 2017 (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 2016.

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 2016, 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 2017.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities*

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.

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 operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2017 and 2016 and certain non-current asset information as at 30 June 2017 and 31 December 2016, by geographic area.

(a) *Revenue from external customers*

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**1,260,512**	1,427,922
Mainland China	**712,475**	765,505
	1,972,987	2,193,427

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

(b) *Non-current assets*

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Hong Kong	**481,218**	510,378
Mainland China	**1,005,988**	1,026,785
	1,487,206	1,537,163

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 net invoiced value of food 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
REVENUE		
Restaurant and bakery operations	**1,851,905**	2,070,413
Sale of food and other items	**88,491**	77,263
Poultry farm operations	**32,591**	45,751
	1,972,987	2,193,427
OTHER INCOME AND GAINS, NET		
Bank interest income	**3,076**	3,047
Fair value gain on derivative financial instrument		
– transaction not qualifying as a hedge	**–**	142
Gain on disposal of items of property, plant and equipment, net	**–**	2
Gross rental income	**1,189**	206
Sponsorship income and government grants	**3,312**	3,005
Commission income	**1,528**	–
Others	**1,130**	711
	10,235	7,113

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**1,852**	2,892
Interest on a finance lease	**3**	7
	1,855	2,899

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**619,596**	721,549
Depreciation*	**145,686**	159,296
Amortisation of land lease payments*	**1,105**	852
Amortisation of other intangible asset	**40**	42
Employee benefit expense* (including directors' remuneration):		
Salaries and bonuses	**557,457**	566,552
Retirement benefit scheme contributions (defined contribution schemes)	**38,676**	39,950
Equity-settled share option expense	**3,461**	–
	599,594	606,502
Lease payments under operating leases*:		
Minimum lease payments	**179,853**	189,892
Contingent rents	**1,793**	2,215
	181,646	192,107
Foreign exchange differences, net	**(185)**	772
Loss/(gain) on disposal of items of property, plant and equipment, net	**309**	(2)
Write-off of items of property, plant and equipment	**2,050**	2,327

* The cost of sales for the period amounting to HK$1,786,576,000 (six months ended 30 June 2016: HK$1,936,456,000) included depreciation charges of HK$138,531,000 (six months ended 30 June 2016: HK$151,787,000), amortisation of land lease payments of HK$1,105,000 (six months ended 30 June 2016: HK$852,000), employee benefit expense of HK$548,950,000 (six months ended 30 June 2016: HK$553,762,000) and operating lease rentals of HK$181,476,000 (six months ended 30 June 2016: HK$191,976,000).

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2017. 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**5,596**	13,325
Current – Mainland China	**10,567**	9,032
Deferred	**(6,043)**	(2,735)
Total tax charge for the period	**10,120**	19,622

9. DIVIDEND

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim – HK5.50 cents (six months ended 30 June 2016: HK6.00 cents) per ordinary share	**55,914**	60,997

The proposed dividend for the period has been approved at the Company's board meeting held on 24 August 2017.

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 2017 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (period ended 30 June 2016: 1,021,418,692) 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 2017 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (period ended 30 June 2016: 1,021,418,692), as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 713,941 (period ended 30 June 2016: 576,152) 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**40,832**	92,294

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the peirod used in the basic earnings per share calculation	**1,016,611,000**	1,021,418,692
Effect of dilution – weighted average number of ordinary shares:		
Share options	**713,941**	576,152
	1,017,324,941	1,021,994,844

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2017, additions of property, plant and equipment and investment properties amounted to HK$49,423,000 in aggregate (six months ended 30 June 2016: HK$93,025,000).

As at 30 June 2017, leasehold land and buildings with a carrying amount of approximately HK$86,468,000 (31 December 2016: HK$87,403,000) situated in Hong Kong were pledged to secure banking facilities granted to the Group.

As at 30 June 2017, the Group's investment properties with a total carrying amount of HK$20,300,000 (31 December 2016: HK$20,300,000) 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 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Within 1 month	**17,823**	19,607
1 to 3 months	**8,054**	7,101
Over 3 months	**4,545**	4,295
	30,422	31,003

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 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Within 1 month	**143,232**	167,052
1 to 2 months	**24,011**	23,923
2 to 3 months	**7,072**	8,699
Over 3 months	**16,060**	15,717
	190,375	215,391

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

14. CONTINGENT LIABILITIES

	30 June 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Bank guarantees given in lieu of utility and property rental deposits	**18,418**	23,005

15. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases its investment properties and a property 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 according 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 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Within one year	**5,277**	32
In the second to fifth years, inclusive	**5,543**	–
	10,820	32

(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 comprise 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 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Within one year	**354,162**	325,370
In the second to fifth years, inclusive	**676,046**	625,659
Beyond five years	**336,670**	327,092
	1,366,878	1,278,121

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 and bakery properties 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 2017 (Unaudited) ***HK$'000***	31 December 2016 (Audited) *HK$'000*
Contracted, but not provided for:		
Leasehold improvements, furniture, fixtures and equipment	**15,979**	14,197
Buildings	**15,372**	21,478
	31,351	35,675

17. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in this announcement, the Group had the following transactions with related parties during the period:

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Rental expense to a related party	*(i)*	**24**	24
Legal fee to an associate	*(ii)*	**353**	–

Notes:

(i) 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 (2016: HK$4,000).

(ii) The legal fee to Howell & Co., a partnership of which Mr. Fong Siu Kwong, a Non-executive Director of the Company is a partner with effect from 1 October 2016, were charged based on mutually agreed terms.

These transactions 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short term employee benefits	**2,764**	2,077
Post-employment benefits	**39**	33
Equity-settled share option expense	**180**	–
	2,983	2,110

BUSINESS REVIEW

The Board hereby announces the interim results of the Group for the six months ended 30 June 2017. Over the latest reporting period, consumption sentiment has remained soft in Hong Kong and Mainland China, which, combined with a rise in various expenses, significantly impacted on the Group's business. The management duly implemented a series of measures that were able to bring stability to the Group's performance.

Financial Results

The operating environment remained difficult during the reporting period. Total revenue contracted by 10.0% to HK$1,973.0 million (2016: HK$2,193.4 million). Profit attributable to owners of the parent amounted to HK$40.8 million (2016: HK$92.3 million). The significant decline in profit was due to the aforementioned business environment, together with the net effect of increases in staff and rental costs of existing restaurants as well as closure of underperforming restaurants. As with other market practitioners, the shortage in labour supply in Hong Kong and China create high pressure for the Group to maintain our service quality. To address this issue, the Group implemented a number of measures, including introducing new incentives schemes for staff in both Hong Kong and Mainland China; increasing staff headcount and basic salary in Mainland China; and by reducing working hours for staff in Mainland China. All of these initiatives consequently resulted in a 1.8% increase in the staff cost to sales ratio. The management believes that this impact is temporary and expects to generate positive returns in the long run. The Hong Kong operations has continued to be the primary revenue contributor to the Group, accounting for 63.9% (2016: 65.1%) of total revenue, with the Mainland China operations accounting for 36.1% (2016: 34.9%).

The Board has proposed an interim dividend of HK5.50 cents per share for the six months ended 30 June 2017, which represents a dividend payout ratio of 136.9%.

Hong Kong Operations

The Hong Kong operations generated revenue totalling HK$1,260.5 million (2016: HK$1,427.9 million) during the reporting period, with earnings before interest, tax, depreciation and amortisation (EBITDA) reaching HK$88.3 million (2016: HK$156.4 million), and profit attributable to owners of the parent amounting to HK$27.3 million (2016: HK$76.0 million).

Consumption sentiment has remained weak during the latest reporting period as the general public continued to be wary about economic conditions at home and abroad. Headwinds in the form of rising staff costs and increased rent upon renewal of leased properties further affected the Group. In the face of such challenges, the management introduced promotional campaigns aimed at diversifying the Group's customer base, such as 火鍋放題 at the late supper session to attract young customers.

As at end of the period, the Group operated a network of 66 restaurants (2016: 70), including three RingerHut restaurants and one T Café 1954 that offer non-Chinese cuisine. Total operating area was reduced to 590,000 sq. ft (2016: 650,000 sq. ft) which consequently affected turnover.

Despite the testing times, the management has invested considerable time and effort to diversify the Group's restaurant portfolio. RingerHut and T Café 1954 have continued to attract customers from diverse demographics to deliver reasonable performances. More recently, the Group's collaboration with Du Hsiao Yueh, a renowned Taiwanese restaurant, has resulted in favourable and encouraging results as well. The first Hong Kong branch of Du Hsiao Yueh was opened at Tsim Sha Tsui in June, and the management trusts that the brand will be able to expand the Group's clientele.

In respect of Tai Cheong Bakery, it has commenced its expansion across Southeast Asia since 2016. Given the favourable response of its overseas outlets in Singapore at the Takashimaya department store in Ngee Ann City and Holland Village, the management envisages further openings in Singapore and within the region as opportunities arise. As for the Tai Cheong Bakery operation in Hong Kong, the Group operated 19 outlets (2016: 25) in the city as at the reporting period. Even though revenue declined from HK$50.1 million in 2016 to HK$44.1 million as at the reporting period, the business nonetheless achieved a turnaround. The management will therefore continue to explore different marketing strategies and collaborative opportunities with other retail brands for diversifying product offerings to achieve sustainable business growth.

In the face of rising rental and labour cost pressures, the management has continued to direct efforts towards optimising operations and raising efficiency. Such efforts have been critical to mitigating the impact of the aforementioned pressures as well as enabling the Hong Kong operations to make strides forward.

Mainland China Operations

The Mainland China operations generated revenue totalling HK$712.5 million (2016: HK$765.5 million) during the reporting period, down by 6.9% owing primarily to fierce competition. EBITDA decreased modestly to HK$110.8 million (2016: HK$117.0 million), while profit attributable to owners of the parent slipped to HK$13.5 million (2016: HK$16.3 million).

Though the business environment has remained challenging, which led to lacklustre performance during the reporting period, the demand for banquet services is expected to gradually improve in the wake of the Central Government's two-child policy that has commenced since the start of 2016. With the number of births rising by 7.9% in the past year alone, there will invariably be more celebratory events as a result. In response, the Group has established a dedicated banquet department that provides one-stop services and which will seek to build a loyal customer base.

Besides banquet services, the Group's integrated complex business model is continuing to be developed over the country. Spearheaded by the Dongguan complex which covers over 22,000 sq.m., and includes Chinese restaurant, supermarket, indoor playground, museum and parking facilities, two other complexes were subsequently opened – all within 2016. The integrated complexes have contributed stable income to the Group, effectively tackling the changing macroeconomic conditions in the country.

With improving efficiency in mind, the management has continued to enhance automation in various aspects of operation. With labour cost continuing to impact on the bottom line, which will remain a concern given the higher literacy rate and education level of the general public, hence making labour intensive careers less appealing, the Group has invested in automation. The investment has thus far resulted in the development of the "Robot Waiter", "Seafood Conveyer Belt" and "Automated Stir Frying Machine". Up to now, the Automated Stir Frying Machine has been introduced to most of the Group's restaurants in Mainland China. The management views such technologies as essential for tackling the problems of rising staff cost and labour shortage, which may worsen in the coming years.

Technology is also playing an increasingly greater role in attracting consumers, particularly the younger generations. In response, the Group has further leveraged e-commerce, including the deployment of a WeChat platform which enables customers to order food and make payment in their own mobile devices. Furthermore, to tap the takeaway market, the Group has employed such popular platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了嗎) to cater for the segment. At present, the takeaway business accounts for approximately 3.0% of Mainland China operations' revenue.

It is worth noting that since the PRC Government's fiscal reform programme resulted in the replacement of the business tax with a new value-added tax, the change has been highly favourable to the Group. In particular, the tax reform has brought down operating costs. The management trusts that the Group will continue to derive benefit from the tax policy in the coming years.

As at 30 June 2017, the Group operated 45 restaurants (2016: 47 restaurants) in Mainland China; opening one new restaurant during the reporting period. The Group also operated a total of 26 (2016: 22 outlets) Bakerz 180 outlets as at period end. The lacklustre consumption sentiment was reflected by a decline in revenue from bakeries in Mainland China to HK$14.2 million (2016: HK$16.1 million).

Poultry and Peripheral Business

The poultry and peripheral business continued to generate stable revenue, amounting to HK$121.1 million (2016: HK$123.0 million) during the reporting period. The supermarket business also performed encouragingly and contributed a fair portion of revenue to the Group. Moreover, the Group's involvement in producing OEM products for Hong Kong airline operators, hotels and supermarkets further added to the total turnover of the segment.

Financial resources and liquidity

As at 30 June 2017, the total assets increased by 1.7% to approximately HK$2,603.9 million (31 December 2016: approximately HK$2,559.2 million) while the total equity decreased by 2.2% to approximately HK$1,713.8 million (31 December 2016: approximately HK$1,751.5 million).

As at 30 June 2017, the Group had the cash and cash equivalents amounting to approximately HK$543.2 million. After deducting the total interest-bearing bank borrowings of HK$313.1 million, the Group had a net cash surplus position of approximately HK$230.1 million.

As at 30 June 2017, the Group's total interest-bearing bank borrowings were increased to approximately HK$313.1 million (31 December 2016: approximately HK$188.0 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 increased to 18.3% (31 December 2016: 10.8%).

Capital expenditure

Capital expenditure for the six months ended 30 June 2017 amounted to approximately HK$49.4 million (period ended 30 June 2016: HK$93.0 million) and the capital commitments as at 30 June 2017 amounted to HK$31.4 million (31 December 2016: HK$35.7 million). The capital expenditure and the capital commitments were mainly for the renovation of the Group's new and existing restaurants and logistics centres.

Pledge of assets

As at 30 June 2017, the Group pledged its bank deposits of approximately HK$13.1 million, leasehold land and buildings of approximately HK$86.5 million and investment properties of approximately HK$20.3 million to secure the banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2017, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$18.4 million (31 December 2016: approximately HK$23.0 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2017 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 minimise foreign currency exposure when appropriate.

Human resources

As at 30 June 2017, the Group had 8,574 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 share option schemes, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 30 June 2017, there are 19,160,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Prospects

With the economic outlook for Mainland China and Hong Kong remaining less than favourable, the respective catering sectors will unlikely experience a turnaround in the immediate future. Nonetheless, the management, with their ample experience, remains confident in implementing strategies that will enable the Group to perform stably despite the persistent headwinds.

With raising efficiency remaining a key objective, the management will further consolidate operations of both the Mainland China and Hong Kong businesses. Reflecting this, a limited number of new restaurants will be opened in the remaining financial year, specifically one in Hong Kong and two in Mainland China. The management will seek collaborative opportunities as well, expanding the Hong Kong operations by way of joint ventures and bringing famous brands to the city to diversify revenue streams.

In respect of the Mainland China operations, the management will direct energies towards developing a sophisticated one-stop banqueting experience, which is consistent with the more upscale customers targeted by the Group. At the same time, increasing automation and use of mobile technology will be pursued via such online platforms as WeChat, which facilitate convenient food ordering and payment, while increasing co-operation with Meituan (美團) will bolster the Group's takeaway business.

Through Tai Cheong Bakery, the Group will also continue to expand its footprint overseas. In Singapore, the Group's tie with a local partner has been fruitful and has created the possibility of opening more outlets in the country. The management will also actively seek to partner with retail brands so as to welcome new customers and facilitate growth of the bakery business across the region – Malaysia being one of the potential markets that the Group will next enter.

Though the operating environment will remain challenging, the Group is confident in its ability to achieve growth over the long term by capitalising on the management's experience and foresight, diverse product portfolio, strategic market presence and sound financial position. By leveraging the aforementioned competitive edges, the Group will continue to seize fresh business opportunities, expand revenue streams and create value for its shareholders.

OTHER INFORMATION

Dividend

In acknowledging continuous support from our shareholders, the Directors have declared the payment of an interim dividend of HK5.50 cents per ordinary share in respect of the year ending 31 December 2017, payable on 12 October 2017 to shareholders whose names appear on the register of members of the Company on 29 September 2017.

Closure of Register of Members

The register of members of the Company will be closed on Tuesday, 3 October 2017 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, 29 September 2017.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2017, 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: Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Equity derivatives	Total	Percentage of the Company's share capital
Executive Directors								
Mr. Chung Wai Ping	*(a) and (b)*	–	12,174,222	–	393,174,689	–	405,348,911	39.87
Mr. Wong Ka Wing	*(c)*	5,522,679	–	103,283,124	–	–	108,805,803	10.70
Mr. Leung Yiu Chun	*(d)*	800,000	–	–	–	600,000	1,400,000	0.14
Mr. Ho Yuen Wah	*(d)*	2,000,000	–	–	–	400,000	2,400,000	0.24
Non-executive Director								
Mr. Fong Siu Kwong		180,000	–	–	–	–	180,000	0.02

Notes:

(a) Billion Era 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 BNP Paribas Singapore Trust Corporation Limited 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.

(d) These represented outstanding options granted to Directors under the Share Option Scheme to subscribe for shares of the Company, further details of which are set forth under the section headed "Share Option Schemes" to this announcement.

Saved as disclosed above, as at 30 June 2017, 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 2017, 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:

		Number of ordinary shares (long position)			
Name of Shareholder	*Notes*	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**% of total issued share**
Billion Era International Limited	*(a)*	393,174,689	–	393,174,689	38.68
Tin Tao Investments Limited	*(a)*	–	393,174,689	393,174,689	38.68
BNP Paribas Corporate Services Pte. Ltd	*(a)*	–	393,174,689	393,174,689	38.68
BNP Paribas Singapore Trust Corporation Limited	*(a)*	–	393,174,689	393,174,689	38.68
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
Whole Gain Holdings Limited		56,795,068	–	56,795,068	5.59
Value Partners Limited	*(d)*	51,187,000	–	51,187,000	5.04

Notes:

(a) Billion Era 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 BNP Paribas Singapore Trust Corporation Limited 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 2017, 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. 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.

Movements of the share options which have been granted under the Pre-IPO Share Option Scheme during the six months ended 30 June 2017 are as follows:

		Number of share options					
Name	**Date of Grant**	**Outstanding at 1 January 2017**	**Granted during the period**	**Exercised during the period**	**Lapsed on expiry**	**Cancelled upon termination of employment**	**Outstanding at 30 June 2017**
Other employees	9 June 2007	3,220,000	–	–	(3,020,000)	(200,000)	–

(b) Share Option Scheme

Pursuant to a share option scheme adopted by the Company on 9 June 2007 (the “Share Option Scheme”), the Company has granted 20,130,000 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 Share Option Scheme. Share options granted under the Share Option Scheme shall vest in 2 tranches, as to 50% and 50% on 1 December 2017 and 1 December 2018, respectively, subject to the fulfilment of certain vesting conditions and are exercisable at HK$2.08 per share and the holders of the said share options may exercise the share options during the period from 2 December 2017 to 1 December 2026, both days inclusive.

Share Option Scheme expired on 9 June 2017 and no further options could be granted under the Share Option Scheme thereafter. However, the share options granted under the Share Option Scheme which have not been fully exercised remain valid until such time when such share options are fully exercised or have lapsed and will continue to be administered under the rules of the Share Option Scheme.

Details of the share options outstanding as at 30 June 2017 which have been granted under the Share Option Scheme are as follows:

		Number of share options					
Name	Date of grant	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Lapsed on expiry	Cancelled upon termination of employment	Outstanding at 30 June 2017
Executive Directors							
Mr. Leung Yiu Chun	2 December 2016	600,000	–	–	–	–	600,000
Mr. Ho Yuen Wah	2 December 2016	400,000	–	–	–	–	400,000
Connected Person							
Mr. Chung Wai Leung	2 December 2016	300,000	–	–	–	–	300,000
Other employees	2 December 2016	18,750,000	–	–	–	(890,000)	17,860,000
Total		20,050,000	–	–	–	(890,000)	19,160,000

(c) *2017 Share Option Scheme*

On 25 May 2017, the Company adopted a new share option scheme (the "2017 Share Option Scheme"). Pursuant to the 2017 Share Option Scheme, 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 highest 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 2017 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 2017 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 compiled 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 2017.

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 compiled with the required standards as set out in the Code throughout the six months ended 30 June 2017.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

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, 24 August 2017

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