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 2019

HIGHLIGHTS

	For the six months ended 30 June		% Change
	2019	2018	**Increase/ (Decrease)**
	(HK$ Million)	*(HK$ Million)*	
Revenue	**2,027.7**	2,079.8	(2.5%)
Hong Kong	**1,252.1**	1,283.2	(2.4%)
Mainland China	**775.6**	796.6	(2.6%)
Profit attributable to owners of the parent	**72.0**	51.3	40.4%
Basic earnings per share (HK cents)	**7.09**	5.05	40.4%
Proposed interim dividend per share (HK cents)	**6.0**	5.5	9.1%
No. of restaurants and bakery outlets including associates			
at 30 June	**152**	152	
at announcement date	**152**	153	

* *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 2019 together with comparative figures for the corresponding period in 2018. These interim condensed consolidated financial statements for the six months ended 30 June 2019 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 2019

		Six months ended 30 June	
		2019	2018
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*5*	**2,027,671**	2,079,840
Cost of sales		**(1,764,140)**	(1,865,611)
Gross profit		**263,531**	214,229
Other income and gains, net	*5*	**14,357**	13,304
Selling and distribution expenses		**(49,373)**	(52,831)
Administrative expenses		**(101,012)**	(93,084)
Other expenses	*7*	**(12,822)**	(19,825)
Finance costs	*6*	**(22,163)**	(1,433)
Share of profits and losses of associates, net		**(24)**	782
PROFIT BEFORE TAX	*7*	**92,494**	61,142
Income tax expense	*8*	**(23,087)**	(19,447)
PROFIT FOR THE PERIOD		**69,407**	41,695
Attributable to:			
Owners of the parent		**72,028**	51,306
Non-controlling interests		**(2,621)**	(9,611)
		69,407	41,695
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	*10*	**HK7.09 cents**	HK5.05 cents
– Diluted	*10*	**HK7.09 cents**	HK5.05 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**69,407**	41,695
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**3,566**	42,626
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**72,973**	84,321
Attributable to:		
Owners of the parent	**75,527**	93,751
Non-controlling interests	**(2,554)**	(9,430)
	72,973	84,321

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Notes	**30 June 2019 (Unaudited)** ***HK$'000***	31 December 2018 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**982,008**	1,031,396
Prepaid land lease payments		**–**	86,543
Right-of-use assets	*3*	**900,475**	–
Investment properties	*11*	**29,400**	29,400
Goodwill		**38,934**	38,883
Other intangible asset		**–**	884
Interests in associates		**10,440**	11,964
Deferred tax assets		**111,530**	100,221
Rental deposits		**98,108**	97,495
Deposits for purchases of items of property, plant and equipment		**79,756**	82,884
Total non-current assets		**2,250,651**	1,479,670
CURRENT ASSETS			
Inventories		**139,691**	149,745
Biological assets		**15**	235
Trade receivables	*12*	**52,788**	42,800
Prepayments, deposits and other receivables		**151,698**	167,244
Tax recoverable		**10,870**	6,529
Pledged deposits		**13,699**	13,653
Cash and cash equivalents		**567,360**	531,416
Total current assets		**936,121**	911,622
CURRENT LIABILITIES			
Trade payables	*13*	**118,097**	135,177
Other payables and accruals		**297,265**	296,443
Interest-bearing bank borrowings		**128,700**	149,667
Lease liabilities	*3*	**251,599**	–
Finance lease payable		**–**	176
Tax payable		**23,666**	16,932
Total current liabilities		**819,327**	598,395
NET CURRENT ASSETS		**116,794**	313,227
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,367,445**	1,792,897

	Notes	**30 June 2019 (Unaudited)** *HK$'000*	31 December 2018 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**13,223**	82,400
Lease liabilities	*3*	**678,837**	–
Finance lease payable		**–**	397
Due to non-controlling shareholders of subsidiaries		**7,607**	7,581
Deferred tax liabilities		**17,001**	16,479
Total non-current liabilities		**716,668**	106,857
Net assets		**1,650,777**	1,686,040
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,661**	101,661
Reserves		**1,533,250**	1,565,445
		1,634,911	1,667,106
Non-controlling interests		**15,866**	18,934
Total equity		**1,650,777**	1,686,040

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 (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 2018.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Unaudited Interim Financial Statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective 1 January 2019.

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

Other than as explained below regarding the impact of HKFRS 16 *Leases* ("HKFRS 16"), the new and revised standards are not relevant to the preparation of the Group's Unaudited Interim Financial Statements. The nature and impact of the new and revised HKFRSs are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

New definition of a lease

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for certain of its office premises, restaurants and bakery properties and equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$557,000 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

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

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on previous assessment of whether leases are onerous immediately before the date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) (Unaudited) *HK$'000*
Assets	
Increase in right-of-use assets	942,562
Decrease in property, plant and equipment	(1,125)
Decrease in prepaid land lease payments	(88,754)
Decrease in prepayments, other receivables and other assets	(16,456)
Increase in deferred tax assets	15,388
Increase in total assets	851,615
Liabilities	
Increase in lease liabilities	981,102
Decrease in other payables and accruals	(81,675)
Decrease in finance lease payable	(573)
Increase in total liabilities	898,854
Equity	
Decrease in retained earnings	(46,725)
Decrease in non-controlling interests	(514)
Decrease in total equity	(47,239)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	(Unaudited)
	HK$'000
Operating lease commitments as at 31 December 2018	1,182,866
Weighted average incremental borrowing rate as at 1 January 2019	4.22%
Discounted operating lease commitments as at 1 January 2019	980,529
Add: Commitments relating to leases previously classified as finance leases	573
Lease liabilities as at 1 January 2019	981,102

As at 30 June 2019, the right-of-use assets and lease liabilities amounted to HK$900,475,000 and HK$930,436,000, respectively.

Disclosure of the changes in accounting policies is provided in the Group's interim report.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of food catering services through a chain of restaurants and bakery shops. Information reported to the Group's chief operating decision maker (i.e. the chief executive officer) for the purpose of 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 2019 and 2018 and certain non-current asset information as at 30 June 2019 and 31 December 2018, by geographic area.

(a) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**1,252,132**	1,283,180
Mainland China	**775,539**	796,660
	2,027,671	2,079,840

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

(b) ***Non-current assets***

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	HK$'000	*HK$'000*
Hong Kong	**863,272**	446,223
Mainland China	**1,177,741**	835,731
	2,041,013	1,281,954

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

5. REVENUE, OTHER INCOME AND GAINS, NET

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Restaurant and bakery operations	**1,866,167**	1,937,386
Sale of food and other items	**100,755**	88,189
Poultry farm operations	**60,749**	54,265
	2,027,671	2,079,840
Other income and gains, net		
Bank interest income	**5,623**	4,005
Gross rental income	**1,135**	2,880
Sponsorship income and government grants	**2,559**	3,455
Commission income	**2,051**	1,086
Management fee income	**771**	501
Gain on disposal of items of property, plant and equipment, net	**50**	–
Others	**2,168**	1,377
	14,357	13,304

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**1,463**	1,421
Interest on a finance lease	**–**	12
Interest on lease liabilities	**20,700**	–
	22,163	1,433

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**652,109**	695,062
Depreciation of items of property, plant and equipment	**102,420**	125,114
Depreciation of right-of-use assets	**152,537**	–
Amortisation of prepaid land lease payments	**–**	1,186
Amortisation of other intangible asset	**40**	43
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	**558,661**	563,405
Retirement benefit scheme contributions (defined contribution schemes)	**38,204**	40,404
Equity-settled share option expense	**–**	1,034
	596,865	604,843
Lease payments under operating leases:		
Minimum lease payments	**–**	186,798
Contingent rents	**9,690**	1,339
	9,690	188,137
Foreign exchange differences, net	**968**	(161)
Write-off of items of property, plant and equipment	**352**	1,164
Impairment of items of property, plant and equipment#	**10,777**	16,256
Impairment of other intangible asset#	**850**	–
Impairment of trade receivables#	**1,195**	3,569

Included in "Other expenses" in the condensed consolidated statement of profit or loss.

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**8,806**	10,939
Current – Mainland China	**9,561**	9,969
Deferred	**4,720**	(1,461)
Total tax charge for the period	**23,087**	19,447

9. DIVIDEND

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim – HK6.00 cents (six months ended 30 June 2018: HK5.50 cents) per ordinary share	**60,997**	55,914

The proposed dividend for the period has been approved at the Company's board meeting held on 22 August 2019.

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 2019 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 2018: 1,016,611,000) in issue during the period.

For the six months ended 30 June 2019 and 2018, no adjustment was made to the basic earnings per share amount in respect of a dilution as the share options had no dilutive effect on the basic earnings per share.

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**72,028**	51,306

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**1,016,611,000**	1,016,611,000

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2019, additions of property, plant and equipment amounted to HK$51,751,000 (six months ended 30 June 2018: HK$57,981,000).

As at 30 June 2019, leasehold land and buildings with a total carrying amount of HK$49,837,000 (31 December 2018: HK$50,270,000) were pledged to secure banking facilities granted to the Group.

As at 30 June 2019, investment properties with a total carrying amount of HK$20,500,000 (31 December 2018: HK$20,500,000) were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Trade receivables	**56,129**	44,946
Impairment	**(3,341)**	(2,146)
	52,788	42,800

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

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Within 1 month	**35,937**	30,472
1 to 3 months	**14,855**	6,180
Over 3 months	**1,996**	6,148
	52,788	42,800

13. TRADE PAYABLES

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

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Within 1 month	**106,680**	124,546
1 to 2 months	**8,553**	5,964
2 to 3 months	**840**	1,137
Over 3 months	**2,024**	3,530
	118,097	135,177

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

BUSINESS REVIEW

The Board hereby announces the interim results of the Group for the six months ended 30 June 2019. During the latest financial period, the Group has continued with consolidation efforts, which are scheduled for completion by the end of the financial year. It has also persisted in the diversification of the Group's various brands by way of collaborating with relevant business partners through joint ventures and other schemes. In addition, the renovation of restaurants of its various brands have been an effective means of attracting the patronage of customers. As a result of these efforts, as well as effective cost control and operational enhancement, the performance of the Group's Hong Kong and Mainland operations have performed encouragingly.

Financial Results

As at the six months ended 30 June 2019, the Group recorded total revenue of HK$2,027.7 million (2018: HK$2,079.8 million), a modest decline of 2.5% year-on-year resulting from the ongoing renovation of several restaurants during the review period. Gross profit margin has nonetheless increased moderately owing to strict cost controls implemented by the management. Profit attributable to owners of the parent achieved a double-digit increase of 40.4% to HK$72.0 million (2018: HK$51.3 million), which was attributed to the strategic consolidation of stores combined with the successful tailoring of menus to attract different tiers of customers.

The Board has proposed an interim dividend of HK6.00 cents per share for the six months ended 30 June 2019, which represents a dividend payout ratio of 84.7%.

Hong Kong Operations

The Hong Kong operations contributed revenue totalling HK$1,252.1 million (2018: HK$1,283.2 million) during the review period. Profit attributable to owners of the parent at HK$45.1 million (2018: HK$48.2 million).

Despite challenging business conditions, the Hong Kong operations were able to attract its target consumers through proven marketing strategies, such as the "Half-priced dim-sum" promotion that is offered during morning hours. Yet further means of winning customers has been the renovation of restaurants as part of its consolidation efforts complemented by the introduction of revised menus, which are aimed at enhancing the overall dining experience and diversifying its customer base respectively. Such efforts have also allowed the Group to achieve its goal of attracting a younger demographic as a new revenue stream. Consequently, an increase in customer traffic was recorded, and more significantly, a rise in same-store sales of 1.8% and increase in average spend per head. To support long-term development of the Hong Kong operations as well as raise efficiency in term of procurement, the Group has started to migrate the enhanced purchasing system successfully implemented in Mainland China to Hong Kong including the adoption of the tendering process, identifying new suppliers and market data analysis aiming for the best price and quality of ingredients to be purchased, as well as better inventory control leading to higher overall operational efficiency.

Also to enhance efficiency is the aforementioned consolidation process which continued in earnest during the review period, with the final round set to conclude in the second half year involving the rightsizing or renovation of five restaurants. The focus will be on operations that attract high-consumption clientele who are more appreciative of a sophisticated ambience. As of 30 June 2019, the Group has 55 restaurants (2018: 60) in Hong Kong.

In diversifying the Group's portfolio, it has collaborated with and introduced different brands to Hong Kong, including Du Hsiao Yueh from Taiwan, which has two restaurants in operation that are located in prime locations in the city, with one more restaurant set to open in the second half year. Yet another means of offering popular flavours of Taiwan to the people of Hong Kong is Han Lin Tea Room (翰林茶館), which is the originator of the Bubble Milk Tea. All of the establishments serve as testament to the Group's commitment to business diversification and broadening its revenue streams.

As regards the Tai Cheong bakery business, efforts at revitalising its brand image have at the same time helped to reinforce its strong position in both Hong Kong and overseas. Furthermore, its expansion in the region now extends beyond Singapore, to a new beachhead in Taiwan. As for the Mainland China market, the Group has undergone a feasibility study for opening in major transportation hubs with our business partner. As at the review period, there are a total of 19 Tai Cheong bakeries in operation (2018: 18), with two more to open in the second half year. The Group's focus will continue to be on establishing bakeries in prime, trendy locations such as the new shopping mall V Walk and Peak Galleria.

Mainland China Operations

The Mainland China operations recorded revenue of HK$775.6 million (2018: HK$796.6 million) as at the close of the review period. Profit attributable to owners increased notably to HK$26.9 million (2018: HK$3.1 million).

During the review period, the Mainland China operations achieved a turnaround, with same store sales growth of 3.3% recorded. The Group's strategy early on to consolidate operations underpinned the business improvement despite challenging consumption sentiment. The combination of restaurant renovations and revised menus has proved particularly effective at attracting younger customers; increasing traffic from this important demographic. Furthermore, after the successful implementation of an enhanced purchasing system proposed by the Consulting Company together with the continuous promotion of ordering and payment via mobile devices have resulted in greater cost management efficiency at the restaurant level. More remarkable through ongoing efforts at central kitchen operations and frontline workflow re-engineering, the integration of cooking disciplines pertaining of kitchen, dim sum and roasted items ("廚，點，味") become feasible which redefined the traditional Chinese restaurant back-end activities. Hence the productivity of our restaurants has been raised effectively.

The three integrated complexes have also played unique roles in facilitating the operations development; raising brand equity among middle and high-income families by offering a diverse range of products and services. Such complexes have resulted in more collaborative opportunities as well, involving B2B, B2C and OEM related activities, building ties with e-commerce and catering businesses. The Group has also linked up with different supermarket chain's operators and caterers, which will contribute to the wholesale business, and will be fully supported by the Group's factory in Dongguan. As for the e-commerce operation, its partnership with popular online platforms Tmall.com and JD.com has resulted in the significant growth of the Group's branded products, with the sales of packaged food increasing by 43% during the review period. The Group's takeout and delivery service also enable a wide spectrum of customers to enjoy its products, which it achieves through ongoing ties with Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了嗎).

As at 30 June 2019, the Group has 45 restaurants (2018: 46 restaurants) in operation in Mainland China. It also has 27 Bakerz 180 outlets (2018: 26 outlets) in the country. During the period, the Group has sought to control costs of the bakery operation by fully utilising the logistics centre. Having already provided a competitive edge to the wholesale business, the centre will support efforts at broadening revenue streams by tapping online sales channels and collaborating with caterers and supermarkets.

Peripheral Business

The supermarket business has continued to deliver encouraging results, accounting for a significant portion of peripheral business revenue. Also, by drawing from experience gained from the production of OEM products for the Hong Kong market, the Group's private label products have started to account for a larger proportion of turnover. To ensure that such products continue to gain traction, the Group will utilise online sales channels so that they are accessible from major parts of the country.

Financial resources and liquidity

As at 30 June 2019, the total assets increased by 33.3% to approximately HK$3,186.8 million (31 December 2018: approximately HK$2,391.3 million) while the total equity decreased by 2.1% to approximately HK$1,650.8 million (31 December 2018: approximately HK$1,686.0 million).

As at 30 June 2019, the Group had the cash and cash equivalents amounted to approximately HK$567.4 million. After deducting the total interest-bearing bank borrowings of HK$128.7 million, the Group had a net cash surplus position of approximately HK$438.7 million.

As at 30 June 2019, the Group's total interest-bearing bank borrowings were decreased to approximately HK$128.7 million (31 December 2018: approximately HK$149.7 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings divided by the total equity attributable to the owners of the Company) was decreased to 7.9% (31 December 2018: 9.0%).

Capital expenditure

Capital expenditure for the six months ended 30 June 2019 amounted to approximately HK$51.8 million (period ended 30 June 2018: approximately HK$58.0 million) and the capital commitments as at 30 June 2019 amounted to approximately HK$3.0 million (31 December 2018: approximately HK$17.8 million). The capital expenditure and the capital commitments were mainly for the renovation of the Group's existing restaurants and logistics centres.

Pledge of assets

As at 30 June 2019, the Group pledged its bank deposits of approximately HK$13.7 million, leasehold land and buildings of approximately HK$49.8 million and investment properties of approximately HK$20.5 million to secure the banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2019, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$28.4 million (31 December 2018: approximately HK$18.7 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2019 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 2019, the Group had 7,585 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 2019, there are 14,860,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Prospects

Despite uncertainty surrounding the global economy, the Group's growth strategy and consolidation efforts have proved to be effectual. The encouraging performance has underscore the importance of preparing for challenges, and that an upturn can be realised even in challenging times.

Going forward in Hong Kong specifically, the Group will continue to employ different development strategies and explore possible collaborations with various restaurants and retail brands. In the case of the former, such strategies will capitalise on the preferences of consumers in their specific market and draw on the latest consumption trends. Central to such strategies will be to consolidate and invigorate core business operations, supported by the delivery of higher quality food and services. As for the latter, the Group will leverage partnerships to drive development of brands and product offerings, reinforce its position in the culinary segment, and offer greater variety of cuisine to suit different demographics and tastes: even opening the way to enter overseas markets.

As for the Mainland China operation, the Group will fully utilise its logistics centre to support its wholesale business as the operation continues to tap opportunities arising from its omnichannel exposure. This also complements the Group's overall aim for the Mainland China operation to capture e-commerce-related opportunities in view of its growing application, and to explore new online platforms to attract customers from across the country. The brick-and-mortar component will also be developed with the opening of restaurants in cities found in the Guangdong-Hong Kong-Macao Greater Bay Area, such as Jiangmen etc., apart from the metropolitan centres such as Shenzhen, Wuhan and Shanghai, where the Group already has a presence.

Looking forward, the management is expecting both Hong Kong and peripheral economy will be enveloped by various kind of uncertainties which create lots of challenges to the catering industry. However, having already placed tremendous effort on diversifying its product portfolio and optimising all areas of operation, the Group is heartened that such labours have begun to bear fruit. Constituting important competitive edges, they will duly be utilised by the Group to grasp new opportunities, thus further build growth momentum that leads to new revenue streams and optimal returns for shareholders.

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 2019, payable on 11 October 2019 to shareholders whose names appear on the register of members of the Company on 30 September 2019.

Closure of Register of Members

The register of members of the Company will be closed on Wednesday, 2 October 2019 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 Monday, 30 September 2019.

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 2019.

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 2019.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2019, 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, 22 August 2019

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