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 2020

HIGHLIGHTS

	For the six months ended 30 June		% Change
	2020	2019	Decrease
	(HK$ Million)	*(HK$ Million)*	
Revenue	**1,147.4**	2,027.7	(43.4%)
Hong Kong	**703.8**	1,252.1	(43.8%)
Mainland China	**443.6**	775.6	(42.8%)
Profit/(loss) attributable to owners of the parent	**(101.2)**	72.0	(240.6%)
Basic earnings/(loss) per share *(HK cents)*	**(9.96)**	7.09	(240.5%)
Proposed interim dividend per share *(HK cents)*	**–**	6.0	(100.0%)
No. of restaurants and bakery outlets			
at 30 June	**130**	143	
at announcement date	**126**	143	

* *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 2020 together with comparative figures for the corresponding period in 2019. These interim condensed consolidated financial statements for the six months ended 30 June 2020 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 2020

		Six months ended 30 June	
		2020	2019
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*5*	**1,147,438**	2,027,671
Cost of sales		**(1,150,913)**	(1,764,140)
Gross profit/(loss)		**(3,475)**	263,531
Other income and gains, net	*5*	**47,488**	14,357
Selling and distribution expenses		**(42,795)**	(49,373)
Administrative expenses		**(83,664)**	(101,012)
Other expenses	*7*	**(18,971)**	(12,822)
Finance costs	*6*	**(19,308)**	(22,163)
Share of profits and losses of associates		**1,325**	(24)
PROFIT/(LOSS) BEFORE TAX	*7*	**(119,400)**	92,494
Income tax credit/(expense)	*8*	**19,237**	(23,087)
PROFIT/(LOSS) FOR THE PERIOD		**(100,163)**	69,407
Attributable to:			
Owners of the parent		**(101,245)**	72,028
Non-controlling interests		**1,082**	(2,621)
		(100,163)	69,407
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	*10*	**HK(9.96) cents**	HK7.09 cents
– Diluted	*10*	**HK(9.96) cents**	HK7.09 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**(100,163)**	69,407
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(23,643)**	3,566
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(123,806)**	72,973
Attributable to:		
Owners of the parent	**(124,347)**	75,527
Non-controlling interests	**541**	(2,554)
	(123,806)	72,973

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Notes	**30 June 2020 (Unaudited)** ***HK$'000***	31 December 2019 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**856,424**	897,786
Right-of-use assets	*11*	**779,325**	883,295
Investment properties	*11*	**29,400**	29,400
Goodwill		**38,333**	38,677
Other intangible asset		**–**	–
Interests in associates		**4,176**	5,084
Deferred tax assets		**109,017**	86,549
Rental deposits		**69,553**	89,374
Deposits for purchases of items of property, plant and equipment		**54,154**	31,910
Total non-current assets		**1,940,382**	2,062,075
CURRENT ASSETS			
Inventories		**155,111**	170,867
Trade receivables	*12*	**39,979**	43,507
Prepayments, deposits and other receivables		**170,470**	144,259
Tax recoverable		**10,438**	1,690
Pledged deposits		**13,552**	13,875
Restricted cash		**4,005**	4,100
Cash and cash equivalents		**501,027**	620,940
Total current assets		**894,582**	999,238
CURRENT LIABILITIES			
Trade payables	*13*	**74,886**	119,872
Other payables and accruals		**241,980**	247,192
Interest-bearing bank borrowings		**257,167**	153,100
Lease liabilities		**226,600**	246,641
Tax payable		**5,489**	20,118
Total current liabilities		**806,122**	786,923
NET CURRENT ASSETS		**88,460**	212,315
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,028,842**	2,274,390

	Notes	**30 June 2020 (Unaudited)** ***HK$'000***	31 December 2019 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**10,680**	11,741
Lease liabilities		**534,550**	606,408
Deferred tax liabilities		**18,950**	18,950
Total non-current liabilities		**564,180**	637,099
Net assets		**1,464,662**	1,637,291
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,661**	101,661
Reserves		**1,343,410**	1,503,338
		1,445,071	1,604,999
Non-controlling interests		**19,591**	32,292
Total equity		**1,464,662**	1,637,291

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020 (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 2019.

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 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*COVID-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

Other than as explained below regarding the impact of Amendment to HKFRS 16 *COVID-19-Related Rent Concessions*, the revised HKFRSs are not relevant to the preparation of the Group's Unaudited Interim Financial Statements.

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's restaurants and bakery properties stores have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$31,774,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

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 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 2020 and 2019 and certain non-current asset information as at 30 June 2020 and 31 December 2019, by geographic area.

(a) Revenue from external customers

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**703,856**	1,252,132
Mainland China	**443,582**	775,539
	1,147,438	2,027,671

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

(b) *Non-current assets*

	30 June 2020 (Unaudited) *HK$'000*	31 December 2019 (Audited) *HK$'000*
Hong Kong	**735,784**	816,246
Mainland China	**1,026,028**	1,069,906
	1,761,812	1,886,152

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 is as follows:

	Six months ended 30 June	
	2020 (Unaudited) *HK$'000*	2019 (Unaudited) *HK$'000*
Restaurant and bakery operations	**946,099**	1,866,167
Sale of food and other items	**147,075**	100,755
Poultry farm operations	**54,264**	60,749
	1,147,438	2,027,671

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

	Six months ended 30 June	
	2020 (Unaudited) *HK$'000*	2019 (Unaudited) *HK$'000*
Bank interest income	**4,304**	5,623
Government grants	**35,234**	1,272
Gross rental income	**296**	1,135
Sponsorship income	**887**	1,287
Commission income	**925**	2,051
Management fee income	**366**	771
Gain on disposal of items of property, plant and equipment, net	**291**	50
Gain on termination of leases	**3,541**	–
Others	**1,644**	2,168
	47,488	14,357

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**2,467**	1,463
Interest on lease liabilities	**16,841**	20,700
	19,308	22,163

7. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**392,474**	652,109
Depreciation of items of property, plant and equipment	**90,004**	102,420
Depreciation of right-of-use assets	**138,588**	152,537
Amortisation of other intangible asset	**–**	40
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	**362,729**	558,661
Retirement benefit scheme contributions (defined contribution schemes)	**18,002**	38,204
	380,731	596,865
Impairment of trade receivables#	**303**	1,195
Write-off of items of property, plant and equipment	**896**	352
Impairment of items of property, plant and equipment#	**3,702**	10,777
Impairment of right-of-use assets#	**14,966**	–
Impairment of other intangible asset#	**–**	850

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 2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. 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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**4,621**	8,806
Current – Mainland China	**257**	9,561
Deferred	**(24,115)**	4,720
Total tax charge/(credit) for the period	**(19,237)**	23,087

9. DIVIDEND

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim – Nil (six months ended 30 June 2019: HK6.00 cents) per ordinary share	**–**	60,997

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the unaudited consolidated loss for the six months ended 30 June 2020 (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 2019: 1,016,611,000) in issue during the period.

For the six months ended 30 June 2020 and 2019, no adjustment was made to the basic earnings/(loss) per share amount in respect of a dilution as the share options had no dilutive effect on the basic earnings/(loss) per share.

The calculations of basic and diluted earnings/(loss) per share are based on:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation	**(101,245)**	72,028

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings/(loss) per share calculation	**1,016,611,000**	1,016,611,000

11. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the six months ended 30 June 2020, additions of property, plant and equipment amounted to HK$56,182,000 (six months ended 30 June 2019: HK$51,751,000).

As at 30 June 2020, buildings and leasehold land included in right-of-use assets with a net carrying amount of HK$15,650,000 and HK$33,323,000, respectively (31 December 2019: HK$15,934,000 and HK$33,471,000, respectively) were pledged to secure banking facilities granted to the Group.

As at 30 June 2020, the Group's investment properties with a total carrying amount of HK$20,500,000 (31 December 2019: HK$20,500,000) were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

	30 June	31 December
	2020	2019
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables	**43,659**	46,884
Impairment	**(3,680)**	(3,377)
	39,979	43,507

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 2020 (Unaudited)	31 December 2019 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**26,114**	31,403
1 to 3 months	**11,576**	11,658
Over 3 months	**2,289**	446
	39,979	43,507

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 2020 (Unaudited)	31 December 2019 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**62,215**	106,037
1 to 2 months	**4,091**	6,362
2 to 3 months	**1,463**	704
Over 3 months	**7,117**	6,769
	74,886	119,872

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 2020. During the latest review period, the Group, like many members of the food and beverage industry, was severely impacted by the COVID-19 pandemic. Lockdowns, quarantines and other measures significantly reduced tourist numbers, which, compounded by social distancing and limits on public gatherings further reduced customer traffic. The Group's Hong Kong operations faced the challenging conditions well into February. Business operations were disrupted during the period, with certain restaurants were closed at the dinner session, and fully closed when the third wave of infections hit. In Mainland China, where conditions turned around more quickly, the Group was able to resume normal operations by April. Despite the curtailing of business operations, the Group was able to tackle the challenges and adapt to the constantly changing operating environment and consumption patterns by leveraging its multi-brand strategy and continuous efforts in cost control and operational enhancement.

Financial Results

During the six months ended 30 June 2020, the Group recorded total revenue of HK$1,147.4 million (2019: HK$2,027.7 million). Loss attributable to owners of the parent amounted to HK$101.2 million (2019: profit of HK$72.0 million). During the period, impairment of right-of-use-assets of HK$15.0 million (2019: Nil) and items of property, plant and equipment of HK$3.7 million (2019: HK$10.8 million) were recorded. One-off subsidies, amounted to HK$32.6 million (2019: Nil), were granted by the HKSAR Government under the Anti-epidemic Fund during the period.

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020.

Hong Kong Operations

The Hong Kong operations experienced a decline in top-line performance; recording revenue of HK$703.8 million (2019: HK$1,252.1 million) for the review period. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) entered a loss position of HK$7.6 million (2019: profit of HK$99.6 million). Furthermore, loss attributable to owners of the parent of HK$41.3 million (2019: profit of HK$45.1 million) was recorded.

The pandemic has brought unprecedented challenges to the Hong Kong operation. Some restaurants were closed at dinner time for two weeks and subsequently reopened as conditions began to improve from late April onwards. However, due to the third wave of infections, all of the restaurants were closed for 17 days within July to August. Amid such difficult conditions, Tao Heung promptly initiated internal controls to manage costs and enhance efficiency as part of the Group's effort to optimise operations. Marketing strategies such as the popular "Half-price dim-sum" during mornings and tea time and the "One-dollar chicken" promotion that ran from May to June at restaurants were also employed to bolster sales and customer traffic. Other promotions were also employed, such as "All-you-can-eat Hot-Pot", supported the Group's objective of generating diverse revenue streams. Moreover, the Group has been negotiating with the landlords for rent concessions. Furthermore, the Group utilised favourable support measures from the government to reduce certain expenses.

On the operation front, an enhanced purchasing system has been employed during this critical period to improve cost management. Together with shrewd manpower allocation applied across all restaurants, associated costs have continued to edge downward. To further optimise manpower and enhance the dining experience, the Group has introduced the "Tea Trolley (茶車)" to its restaurants, which allow customers to have fresh tea made by themselves, a practice that perfectly complements Chinese cuisine. Moreover, mobile ordering services are applied across most of the restaurants to encourage quicker turnover. In view of the current pandemic, the Group has also partnered with delivery service providers to tailor-make packages that are suitable for different food portions.

All in all, even though revenue was heavily impacted by the COVID-19 pandemic, Tao Heung has taken the opportunity to step up efforts on improving services, as well as be fully prepared for the resumption of business post-pandemic. It has been closely monitoring changing consumption patterns and behaviour, and can well adapt to changing trends.

It is worth noting that the logistics centre in Hong Kong has diversified revenue streams of the Group during the period. Packaged food have successfully been exported overseas, including France, Vietnam, Africa, and the Group is planning to enhance its global presence still further, potentially exporting to Australia and Cambodia. Other than exporting popular packaged Chinese dishes, including soup, dim sum, cold dishes, "梅菜扣肉" and "南乳豬手", to grow its footprint globally, the Group has also collaborated with HKTV mall in facilitating the online ordering of its packaged food, leading to encouraging feedback and demand.

The Group operates a number of restaurants across Hong Kong, which, as at the review period totalled 49 establishments. Owing to consolidation and rightsizing of restaurants in preceding years, efforts at reducing costs have been readily achieved. Tao Heung will maintain its focus on strengthening its standing as a renowned Chinese culinary group, so as to help underpin the stature of its self-owned Chinese restaurant brands.

With regard to the Tai Cheong bakery business, it has been able to uphold its standing as a premium bakery operation since its rebranding exercise. The business has a strong foothold in Hong Kong, operating 15 outlets during the review period. This network includes shops in prime and fashionable locations, such as the new shopping mall V Walk and the Peak Galleria which appeal to customers from different districts and all walks of life. In terms of overseas presence, Singapore has continued contributing revenue to Tai Cheong through five outlets during the review period.

Mainland China Operations

The Mainland China operations generated HK$443.6 million (2019: HK$775.6 million) in revenue during the review period, with EBITDA entering a loss of HK$19.3 million (2019: profit of HK$96.8 million). Loss attributable to owners of the parent amounted to HK$59.9 million (2019: profit of HK$26.9 million).

Due to the COVID-19 pandemic, the Group's restaurants were closed from the end of January to March 2020. Certain restaurants subsequently offered delivery services in March, with all restaurants – 45 in total as at the review period, resumed operations from April onwards. While revenue and profit invariably recorded declines respectively, revenue from restaurants in Dongguan and Central China in April to June recorded increases compared with the same period last year.

In the face of challenging business conditions, the Group has redoubled efforts in managing costs, subsequently employing a variety of measures, such as the reallocation of staff and increasing staff training to ensure they can take on a variety of tasks. Efforts have also been made to the centralised kitchen system to ensure that cooking disciplines pertaining to kitchen, dim sum and roasted items ("廚、點、味") are well integrated. Also, negotiations were held with landlords for more amicable rental terms. Furthermore, the Group utilised on favourable support measures from the government, which enabled it to reduce certain expenses.

It is worth noting that Tao Heung's Dongguan logistics centre has been in operation throughout the pandemic period, and increased shifts to support the rising demand for chilled and packaged food. The Group has consequently considered the upsurge in demand as an opportunity for increasing its market share in this business segment. The Group has partnered with T.mall, JD.com and other supermarket-chain operators, which enabled such products to reach more regions in the country.

Yet another area that has gained greater consideration is the takeaway segment. Similar to Hong Kong, takeaway and delivery services have played important roles in generating sales during the pandemic. Through the implementation of a nationwide mobile ordering platform that is linked to the Group's restaurant network, customers can now more efficiently place food orders, which were much appreciated by customers. And to increase stickiness, specially developed delivery menus have been introduced to meet customers' tastes, resulting in a three-fold year-on-year increase in sales from this segment.

The three integrated complexes have continued to bring in new revenue streams to the Group during the review period. With regard to its wholesale business, it has provided a robust backbone for extending the Group's brand to the online realm, and particularly packaged OEM products during the pandemic. On the supermarket side, relevant collaborations have facilitated growth and allowed the Group to reach a wider spectrum of customers. Sales and marketing efforts have subsequently been increased to further strengthen contributions from the wholesale business, leading to a more expansive sales network and greater market penetration. As a whole, revenue from this business model has increased 92% despite the pandemic.

The Bakerz 180 bakery operation consisted of 21 outlets as at the review period. Ongoing effort at streaming down costs has been the principal business strategy. Towards this objective, the Group has made full use of the Dongguan logistics centre, which also provides a major competitive advantage in supporting the supply of baked goods to the wholesale business; allowing for collaborations with caterers and supermarkets, as well as for branching out to online sales.

Financial resources and liquidity

As at 30 June 2020, the total assets decreased by 7.4% to approximately HK$2,835.0 million (31 December 2019: approximately HK$3,061.3 million) while the total equity decreased by 10.5% to approximately HK$1,464.7 million (31 December 2019: approximately HK$1,637.3 million).

As at 30 June 2020, the Group had cash and cash equivalents amounted to approximately HK$501.0 million. After deducting the total interest-bearing bank borrowings of HK$257.2 million, the Group had a net cash surplus position of approximately HK$243.8 million.

As at 30 June 2020, the Group's total interest-bearing bank borrowings were increased to approximately HK$257.2 million (31 December 2019: approximately HK$153.1 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 increased to 17.8% (31 December 2019: 9.5%).

Capital expenditure

Capital expenditure for the six months ended 30 June 2020 amounted to approximately HK$56.2 million (period ended 30 June 2019: approximately HK$51.8 million) and the capital commitments as at 30 June 2020 amounted to approximately HK$27.1 million (31 December 2019: approximately HK$30.0 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 2020, the Group pledged its bank deposits of approximately HK$13.6 million, leasehold land and buildings of approximately HK$49.0 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 2020, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$27.7 million (31 December 2019: approximately HK$26.9 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2020 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 2020, the Group had 5,945 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 2020, there are 11,560,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Prospects

Amid global economic uncertainties and far-reaching repercussions from the pandemic, Tao Heung's integrated business model has provided the Group with a solid foundation for supporting business operations. In the immediate future, the Group will nonetheless exercise tremendous caution in managing its assets and working capital and will reserve greater resources for future development. As for addressing present developments on the restaurant front, the Group will devise more diverse marketing strategies so its traditional Chinese cuisine continues to have a solid footing for progress, and thus uphold the Tao Heung brand's reputation for Chinese culinary excellence. Also, in line with current times, efforts will be placed on advancing the Group's delivery service, including raising capacity, introducing new packaging, and updating menus to address consumption trends. Developing the right strategies to adapt to changing spending habits and preferences will clearly be paramount in ensuring sustainable business development. For the Hong Kong and Mainland China businesses collectively, the Group will bolster the wholesale business, both offline and online. In the case of the former, this will involve tapping more supermarkets, where as for the latter, the Group will explore more e-commerce platforms to attract customers from different regions, so as to raise revenue and profit while concurrently increase the Group's share of the wholesale market. To support such endeavours, the Group will fully utilise its logistics centre, which, with its high level of automation has allowed for flexible operating hours, and equally important, the uninterrupted output of packaged food during the COVID-19 crisis.

The management remains confident in the Group's ability to maintain business stability amid these unprecedented times. Aside from leveraging the Group's many competitive edges, management will place significant effort on bolstering operations, diversifying the product portfolio, and grasping emerging opportunities so as to access new revenue streams, leading ultimately to the delivery of fair returns to shareholders.

OTHER INFORMATION

Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020.

Corporate Governance

During the six months ended 30 June 2020, the Company has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and complied with all applicable code provisions under the Code, save and except for the deviation from the code provision A.2.1 of the Code. Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("**CEO**") should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision A.2.1, i.e., the roles of the Chairman and CEO have not been separated. Considering that Mr. Chung Wai Ping has been operating and managing the Group since its incorporation, the Board believes that it is in the best interest of the Group to have Mr. Chung Wai Ping taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from code provision A.2.1 is appropriate in such circumstance.

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 2020.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2020, 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
Tao Heung Holdings Limited
Chung Wai Ping
Chairman

Hong Kong, 28 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. CHUNG Wai Ping, Mr. WONG Ka Wing, Mr. HO Yuen Wah and Mr. CHUNG Chun Fung, 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