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 2007

HIGHLIGHTS

- Revenue increased by 28.7% to approximately HK$979.0 million for the six months ended 30 June 2007 (2006: approximately HK$760.7 million).
- Profit attributable to equity holders grew by 54.9% to approximately HK$112.1 million for the six months ended 30 June 2007 (2006: approximately HK$72.3 million).
- Basic earnings per share was HK12.78 cents for the six months ended 30 June 2007 (2006: HK8.26 cents), representing an increase of 54.7%.
- Interim and special dividends totalled of HK$63.0 million for the six months ended 30 June 2007 have been declared.
- Net assets value per share increased to HK84.75 cents as at 30 June 2007.
- Net cash per share rose to HK43.12 cents as at 30 June 2007.
- Total number of restaurants reached 49 as at 30 June 2007 and 52 as at the date of this announcement.

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 consolidated interim results of the Group for the six months ended 30 June 2007 together with comparative figures for the corresponding period in 2006. These interim condensed consolidated financial statements for the six months ended 30 June 2007 have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	**Six months ended 30 June** **2007** **(Unaudited)** ***HK$'000***	2006 (Unaudited) *HK$'000*
REVENUE	*5*	**978,957**	760,658
Other income and gains	*5*	**41,001**	3,882
Cost of inventories consumed		**(326,646)**	(241,187)
Staff costs		**(269,810)**	(221,435)
Lease payments under operating leases in respect of land and buildings		**(64,121)**	(51,521)
Depreciation of property, plant and equipment		**(38,764)**	(25,475)
Recognition of prepaid land lease payments		**(596)**	(811)
Other expenses		**(184,088)**	(127,079)
Finance costs	*6*	**(2,769)**	(2,785)
Share of losses of associates		**(10)**	(2)
PROFIT BEFORE TAX	*7*	**133,154**	94,245
Tax	*8*	**(19,941)**	(16,493)
PROFIT FOR THE PERIOD		**113,213**	77,752
Attributable to:			
Equity holders of the Company		**112,059**	72,324
Minority interests		**1,154**	5,428
		113,213	77,752
DIVIDENDS	*9*	**63,000**	25,000
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
— Basic	*10*	**HK12.78 cents**	HK8.26 cents
— Diluted	*10*	**HK12.78 cents**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Notes	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**383,419**	267,074
Prepaid land lease payments		**68,790**	72,813
Investment properties		**13,000**	13,000
Goodwill	*12*	**17,512**	3,718
Interests in associates		**1,261**	1,271
Deferred tax assets		**26,885**	22,572
Rental deposits		**36,953**	34,082
Deposits for purchases of property, plant and equipment		**—**	12,472
Pledged deposits	*14*	**10,874**	10,874
Total non-current assets		**558,694**	437,876
CURRENT ASSETS			
Financial assets at fair value through profit or loss		**15,966**	15,545
Inventories		**34,168**	22,969
Trade receivables	*13*	**8,258**	8,508
Prepayments, deposits and other receivables		**50,829**	30,672
Due from related companies	*22(b)*	**—**	9,308
Pledged deposits	*14*	**—**	9,939
Cash and cash equivalents	*14*	**523,642**	137,912
		632,863	234,853
Assets classified as held for sale		**5,555**	26,250
Total current assets		**638,418**	261,103
CURRENT LIABILITIES			
Trade payables	*15*	**91,353**	53,429
Other payables and accruals		**136,525**	119,154
Interest-bearing bank borrowings	*16*	**34,224**	46,715
Finance lease payables		**563**	664
Due to related companies	*22(b)*	**628**	21,443
Due to an associate		**—**	3,234
Due to a minority shareholder of subsidiaries		**998**	1,058
Tax payable		**26,098**	14,112
Total current liabilities		**290,389**	259,809
NET CURRENT ASSETS		**348,029**	1,294
TOTAL ASSETS LESS CURRENT LIABILITIES		**906,723**	439,170

	Notes	**30 June 2007 (Unaudited)** ***HK$'000***	31 December 2006 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*16*	**58,220**	69,401
Finance lease payables		**129**	386
Due to a related party	*22(b)*	**—**	3,866
Deferred tax liabilities		**847**	847
Total non-current liabilities		**59,196**	74,500
Net assets		**847,527**	364,670
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*17*	**100,000**	780
Reserves		**682,723**	363,120
Proposed dividends	*9*	**63,000**	—
		845,723	363,900
Minority interests		**1,804**	770
Total equity		**847,527**	364,670

NOTES

1. CORPORATE INFORMATION AND REORGANISATION

The Company is a limited liability company incorporated in the Cayman Islands on 29 December 2005 and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the ''**Stock Exchange**'') on 29 June 2007. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at No. 13 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.

On 4 June 2007, pursuant to a group reorganisation (the ''**Reorganisation**'') to rationalise the structure of the Group in preparation for the initial public offering of the shares of the Company on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Group's Reorganisation are set out in the Company's listing prospectus dated 15 June 2007 (the ''**Prospectus**'').

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2007 (the ''**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 ''**HKICPA**'') and applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (''**Listing Rules**'') on the Stock Exchange.

The Group resulting from the Reorganisation is regarded as a continuity entity. Accordingly, the Interim Financial Statements have been prepared based on the principles of merger accounting in accordance with Accounting Guideline 5 ''Merger Accounting for Common Control Combination'' issued by the HKICPA as if the Company had been the holding company of the companies comprising the Group and the group structure as at 4 June 2007 had been in existence from the beginning of 1 January 2006. The acquisition of subsidiaries during the period has been accounted for using the purchase method of accounting.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of the Interim Financial Statements are consistent with those used in the financial statements of the companies comprising the Group which were used for the preparation of the accountants' report for the three years ended 31 December 2006 as published in Appendix I to the Prospectus, except in relation to the following new and revised Hong Kong Financial Reporting Standards (''**HKFRSs**''), which are effective for an annual period beginning on or after 1 January 2007. Adoption of these new and revised HKFRSs did not have any effect on the financial position or performance of the Group.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Segment information presented below is by way of the Group's geographical segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The Group's customer-based geographical segments are Hong Kong and Mainland China.

Since over 90% of the Group's revenue and assets relate to the restaurant segment which engages in the provision of food catering services through a chain of restaurants, no further analysis on business segment is presented.

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments for the six months ended 30 June 2007 and 2006.

	Six months ended 30 June 2007		
	Hong Kong (Unaudited) *HK$'000*	**Mainland China (Unaudited)** *HK$'000*	**Total (Unaudited)** *HK$'000*
Revenue from external customers	**854,379**	**124,578**	**978,957**
Segment results	**122,411**	**13,522**	**135,933**
Finance costs	**(2,769)**	**—**	**(2,769)**
Share of losses of associates	**(10)**	**—**	**(10)**
Profit before tax	**119,632**	**13,522**	**133,154**
Tax	**(16,938)**	**(3,003)**	**(19,941)**
Profit for the period	**102,694**	**10,519**	**113,213**
Segment assets	**896,939**	**273,288**	**1,170,227**
Capital expenditure	**52,266**	**70,821**	**123,087**
Depreciation	**32,309**	**6,455**	**38,764**
Recognition of prepaid land lease payments	**465**	**131**	**596**

	Six months ended 30 June 2006		
	Hong Kong (Unaudited) *HK$'000*	Mainland China (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Revenue from external customers	758,355	2,303	760,658
Segment results	99,574	(2,542)	97,032
Finance costs	(2,785)	—	(2,785)
Share of losses of associates	(2)	—	(2)
Profit/(loss) before tax	96,787	(2,542)	94,245
Tax	(16,493)	—	(16,493)
Profit/(loss) for the period	80,294	(2,542)	77,752
Segment assets	524,322	62,261	586,583
Capital expenditure	24,599	27,866	52,465
Depreciation	25,475	—	25,475
Recognition of prepaid land lease payments	481	330	811

5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	Six months ended 30 June	
	2007 (Unaudited) ***HK$'000***	2006 (Unaudited) *HK$'000*
REVENUE		
Restaurant operations	**966,461**	754,113
Sale of food and other operating items	**12,496**	6,545
	978,957	760,658
OTHER INCOME AND GAINS		
Gross rental income from investment properties	**611**	728
Bank interest income	**5,252**	1,675
Interest income from an amount due from a shareholder	**—**	268
Dividend income from unlisted investments	**223**	170
Sponsorship income	**1,409**	467
Gain on disposal of leasehold land and buildings	**30,786**	—
Excess over the cost of a business combination	**1,553**	—
Fair value gain on financial assets at fair value through profit or loss	**421**	—
Others	**746**	574
	41,001	3,882

6. FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable		
— Within five years	**3,518**	703
— Beyond five years	**21**	2,002
Interest on finance leases	**38**	80
Total interest	**3,577**	2,785
Less: Interest capitalised	**(808)**	—
	2,769	2,785

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Gross rental income from investment properties	**(611)**	(728)
Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**1**	16
Net rental income	**(610)**	(712)
Employee benefits expense (including directors' remuneration):		
Wages, salaries and bonuses	**257,450**	211,259
Retirement benefits scheme contributions (defined contribution schemes)	**11,972**	10,176
Equity-settled share-based payment expenses	**388**	—
	269,810	221,435
Lease payments under operating leases in respect of land and buildings:		
Minimum lease payments	**61,130**	48,422
Contingent rents	**2,991**	3,099
	64,121	51,521
Fair value (gain)/loss on financial assets at fair value through profit or loss	**(421)**	34
Foreign exchange differences, net	**125**	11

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2007 (2006:17.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current — Hong Kong		
Charge for the period	**16,938**	16,493
Current — Elsewhere	**3,003**	—
Total tax charge for the period	**19,941**	16,493

9. DIVIDENDS

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim paid — Nil (2006: HK$2,778) per ordinary share	**—**	25,000*
Proposed special — HK2.96 cents (2006: Nil) per ordinary share	**30,000**	—
Proposed interim — HK3.25 cents (2006: Nil) per ordinary share	**33,000**	—
	63,000	25,000

The proposed dividends for the period under review have been approved at the Company's board meeting on 12 September 2007.

Proposed special dividend and proposed interim dividend per ordinary share for the six months ended 30 June 2007 are calculated based on the number of 1,000,000,000 shares issued as at 30 June 2007 plus 14,460,000 shares issued pursuant to the over-allotment option on 19 July 2007.

* No dividend has been paid or declared by the Company since its date of incorporation and up to 31 December 2006. The amount represented dividend paid by Tensel Investment Limited (''**Tensel**''), a subsidiary which was the holding company of all the other subsidiaries of the Group (other than Sky Cheer Group Limited), to its former shareholders.

10. EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the unaudited consolidated profit for the six months ended 30 June 2007 attributable to equity holders of the Company of HK$112,059,000 (2006: HK$72,324,000) and the weighted average number of 876,679,452 shares (2006: 876,000,000 shares) in issued during the period under review. The weighted average number of shares is calculated based on the 876,000,000 shares, representing the number of shares of the Company immediately after the capitalisation issue but excluding any shares issued pursuant to the initial public offering, deemed to have been in issue at the beginning of the current and prior periods.

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary share which is the share options granted to the directors of the Company and the employees of the Group under the Pre-IPO Share Option Scheme (defined hereinafter). For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**112,059**	72,324
Weighted average number of ordinary shares in issue	**876,679,452**	876,000,000
Adjustments for share options	**41,666**	N/A
Weighted average number of ordinary shares for diluted earnings per share	**876,721,118**	N/A
Diluted earnings per share	**HK12.78 cents**	N/A

Diluted earnings per share was not disclosed for the six months ended 30 June 2006 as there were no dilutive potential ordinary shares during that period.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007, additions of property, plant and equipment amounted to HK$123,087,000 (2006: HK$52,465,000), excluding property and equipment acquired through a business combination (note 23). Items of property, plant and equipment with a net book value of HK$20,214,000 were disposed of by the Group during the six months ended 30 June 2007 (2006: Nil), resulting in a net gain on disposal of HK$30,786,000 (2006: Nil).

As at 30 June 2007, leasehold land and buildings with net book value of approximately HK$101,408,000 (2006: HK$107,863,000) were pledged to secure the Group's bank loans and a bank loan facility (note 16).

12. GOODWILL

	30 June	31 December
	2007	2006
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Carrying amount at 1 January	**3,718**	3,718
Acquisition of subsidiaries (note 23)	**13,794**	—
Carrying amount at end of the period	**17,512**	3,718

Goodwill is tested for impairment annually or whenever there is any indication of impairment. As at 30 June 2007, there was no indication of impairment.

13. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. 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. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the payment due date, is as follows:

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Within 1 month	**5,944**	8,218
1 to 2 months	**1,167**	283
2 to 3 months	**214**	—
Over 3 months	**933**	7
	8,258	8,508

14. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Cash and bank balances	**283,591**	97,710
Time deposits	**250,925**	61,015
	534,516	158,725
Less:		
Pledged deposits with original maturity over 3 months but within 1 year for short term bank loans	**—**	(9,939)
Pledged deposits with original maturity over 1 year for banking facilities	**(10,874)**	(10,874)
Cash and cash equivalents	**523,642**	137,912

15. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Within 1 month	**82,373**	52,587
1 to 2 months	**3,272**	327
2 to 3 months	**2,096**	16
Over 3 months	**3,612**	499
	91,353	53,429

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

16. INTEREST-BEARING BANK BORROWINGS

	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
Current		
Bank loans		
— Unsecured	**11,806**	—
— Secured	**22,418**	46,715
	34,224	46,715
Non-current		
Bank loans — secured	**58,220**	69,401
	92,444	116,116
Analysed into:		
Bank loans repayable:		
Within one year	**34,224**	46,715
In the second year	**20,871**	22,098
In the third to fifth years, inclusive	**36,806**	45,828
Beyond five years	**543**	1,475
	92,444	116,116

Notes:

(a) Certain of the Group's bank loans and facilities are secured by:

(i) mortgages over the Group's investment properties;

(ii) mortgages over the Group's leasehold land, including prepaid land lease payments and buildings situated in Hong Kong;

(iii) the pledge of the Group's time deposits (note 14);

(iv) the pledge of the Group's investment funds; and

(v) the pledge of the Group's assets classified as held for sale.

(b) As at 30 June 2007, the secured bank loans bear interest at rates ranging from 5.50% to 7.00% per annum (31 December 2006: 5.24% to 7.00% per annum).

17. SHARE CAPITAL

	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
Authorised:		
23,400,000,000 (2006: 300,000,000) ordinary shares of HK$0.10 each (2006: US$1.00 each)	**2,340,000**	2,340,000*
Issued and fully paid:		
1,000,000,000 (2006: 100,000) ordinary shares of HK$0.10 each (2006: US$1.00 each)	**100,000**	780*

* Amounts denominated in US$ have been translated into HK$ at US$1.00: HK$7.80.

The following changes in the authorised and issued share capital of the Company took place during the period from 29 December 2005 (date of its incorporation) to 30 June 2007:

	Notes	Number of ordinary shares	Nominal value of ordinary shares *HK$'000*
Authorised:			
Upon incorporation, at 31 December 2006 and 1 January 2007	*(a)*	300,000,000	2,340,000
Cancellation	*(b)*	(300,000,000)	(2,340,000)
Increase in authorised share capital	*(b)*	23,400,000,000	2,340,000
As at 30 June 2007		23,400,000,000	2,340,000
Issued:			
Upon incorporation		1	—
Allotted, issued and fully paid		99,999	780
As at 31 December 2006 and 1 January 2007	*(a)*	100,000	780
Repurchase of shares	*(b)*	(100,000)	(780)
Allotted, issued and fully paid	*(b)*	7,800,000	780
On acquisition of Tensel — consideration shares issued	*(c)*	8,546,695	855
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	*(d)*	859,653,305	—
New issue of shares	*(e)*	124,000,000	12,400
Capitalisation of the share premium account as set out above	*(d)*	—	85,965
As at 30 June 2007		1,000,000,000	100,000

Notes:

(a) Upon incorporation of the Company, the authorised share capital was US$300,000,000 divided into 300,000,000 shares of US$1.00 each. 100,000 shares of US$1.00 each were allotted and issued on 29 December 2005.

(b) Pursuant to a shareholders' resolution passed on 21 March 2007, the authorised share capital of the Company was increased by HK$2,340,000,000 by the creation of 23,400,000,000 new shares of HK$0.10 each of which 7,800,000 new shares were allotted, issued and fully paid at par. The Company then repurchased all 100,000 issued shares of US$1.00 each at a price of US$1.00 each and cancelled the authorised share capital of 300,000,000 shares of US$1.00 each.

(c) Pursuant to a shareholders' resolution passed on 4 June 2007, the Company acquired 1,000,000 shares of HK$1.00 each in the entire share capital of Tensel in consideration of the Company by allotting and issuing an aggregate of 8,546,695 shares of HK$0.10 each of the Company, credited as fully paid at par to the then shareholders of Tensel.

(d) Pursuant to written resolutions of the shareholders passed on 9 June 2007, an aggregate of 859,653,305 shares of HK$0.10 each in the Company were allotted and issued, credited as fully paid at par, by way of capitalisation of the sum of HK$85,965,331 from the share premium account, to the then existing shareholders of the Company, whose names appeared in the register of the Company at the close of business on 11 June 2007, in proportion to their respective shareholdings, such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's international placing and initial public offering as detailed in note (e) below.

(e) In connection with the Company's international placing and initial public offering, 124,000,000 shares of HK$0.10 each were issued at a price of HK$3.18 per share for a total cash consideration, before listing expenses, of HK$394,320,000. Dealing in these shares on the Stock Exchange commenced on 29 June 2007.

18. SHARE OPTIONS

The Company has adopted a pre-initial public offering share option scheme (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**") on 9 June 2007 for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group.

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted certain 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. Details of the Pre-IPO Share Option Scheme is set out in the sub-section headed ''Pre-IPO Share Option Scheme'' under the section headed ''Statutory and General Information'' in appendix VI of the Prospectus. The exercise price shall be 50% of the final offer price to the public. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the grant date.

At 30 June 2007, 15,190,000 options were granted under the Pre-IPO Share Option Scheme. 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 2012, both days inclusive.

Pursuant to the Share Option Scheme, the Company may grant certain options to certain types of participants as defined in the Share Option Scheme (including directors and employees of the Group, etc.) to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Share Option Scheme. Details of the Share Option Scheme is set out in the sub-section headed ''Share Option Scheme'' under the section headed ''Statutory and General Information'' in appendix VI of the Prospectus.

As at the date of this announcement, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

19. CONTINGENT LIABILITIES

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Bank guarantees given in lieu of utility and property rental deposits	**21,099**	19,308

20. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases its investment properties to third parties under operating lease arrangements with lease terms ranging from two to three years.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Within one year	**76**	76

(ii) As lessee

The Group leases certain of its office premises and restaurant properties under operating lease arrangements with lease terms ranging from two to eight years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2007 (Unaudited) *HK$'000*	31 December 2006 (Audited) *HK$'000*
Within one year	**128,985**	114,702
In the second to fifth years, inclusive	**188,933**	175,344
Beyond five years	**39,872**	26,963
	357,790	317,009

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

21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20 above, the Group had the following capital commitments as at the balance sheet date:

	30 June 2007 (Unaudited) ***HK$'000***	31 December 2006 (Audited) *HK$'000*
Contracted but not provided for:		
Capital contribution payable to a subsidiary	**36,000**	15,000
Buildings	**18,642**	31,002
Machinery and equipment	**7,433**	16,883

22. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following material transactions with related parties during the period:

(a) Transactions with related parties

Particulars of significant transactions between the Group and related parties are summarised as follows:

	Six months ended 30 June	
	2007 (Unaudited) ***HK$'000***	2006 (Unaudited) *HK$'000*
Sales of food and other operating items to related companies	**—**	117
Purchases of food and other operating items from related companies	**—**	11,645
Interest income from a shareholder	**—**	268
Rental expense to a related party	**84**	84

(b) Balances with related parties

	30 June 2007 (Unaudited) ***HK$'000***	31 December 2006 (Audited) *HK$'000*
Amounts due to related companies	**628**	21,443
Amounts due to a related party	**—**	3,866

The amounts due to related companies are unsecured and interest-free. Except for an amount of HK$628,000 due to a related company which was de-registered at the date of these financial statements, the remaining balance was fully repaid during the period.

The amount due to a related party was unsecured, interest-free and fully repaid during the period.

(c) Key management compensation

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short term employee benefits	**1,318**	1,718
Post-employment benefits	**31**	33
	1,349	1,751

23. BUSINESS COMBINATIONS

On 1 January 2007, the Group entered into a sale and purchase agreement with Messrs. Chung Wai Ping and Chung Ming Fat, the directors and shareholders of the Company, to acquire 100% equity interests in Glory Rainbow International Trading Limited (''**Glory Rainbow**''), Loyal Sky Holdings Limited (''**Loyal Sky**''), Skymark Asia Limited (''**Skymark**''), and Sky Rich (China) Limited (''**Sky Rich**'') together with their subsidiaries (collectively, the ''**PRC Group**'') for a total cash consideration of HK$51,000,000 (the ''**Acquisition**''). The PRC Group is principally engaged in the restaurant operations in Mainland China.

The fair values of the identifiable assets and liabilities of the PRC Group as at the date of the Acquisition which are equivalent to the corresponding carrying amounts immediately before the Acquisition are as follows:

	Loyal Sky	**Glory Rainbow**	**Skymark**	**Sky Rich**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	3,549	10,451	10,095	2,820	26,915
Deferred tax assets	1,043	1,743	274	1,253	4,313
Inventories	11	28	1,315	1,150	2,504
Trade receivables	189	1,182	78	83	1,532
Prepayments, deposits and other receivables	604	423	809	595	2,431
Due from related companies	—	551	3,758	17,785	22,094
Due from a related party	—	—	556	12	568
Cash and cash equivalents	3,950	3,371	1,532	866	9,719
Trade payables	(1,763)	(1,525)	(4,393)	(2,602)	(10,283)
Other payables and accruals	(2,368)	(4,344)	(2,054)	(870)	(9,636)
Due to related companies	(2,424)	(4,410)	(728)	(3,024)	(10,586)
Tax payable	(357)	(182)	(273)	—	(812)
Net assets acquired at fair values	2,434	7,288	10,969	18,068	38,759
Goodwill on acquisition *(note 12)*					13,794
Excess over the cost of a business combination recognised in the income statement					(1,553)
Satisfied by cash					51,000

An analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(51,000)
Cash and bank balances acquired	9,719
Net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(41,281)

Since the Acquisition, the PRC Group contributed HK$93,016,000 to the Group's revenue and HK$10,392,000 to the consolidated profit for the six months ended 30 June 2007.

24. POST BALANCE SHEET EVENT

An over-allotment option (the "**Over-allotment Option**") was granted by the Company exercisable by UOB Asia (Hong Kong) Limited ("**UOB Asia**") at any time within 30 days after 21 June 2007, being the last day for lodging of applications under the Hong Kong public offerings. Pursuant to the Over-allotment Option, the Company may be required to allot and issue up to an aggregate of 18,600,000 new shares (the "**Over–allotment Shares**"), representing 15% of the 124,000,000 shares initially offered under the share offer, to cover over-allocations in the international placing.

On 17 July 2007, the Over-allotment Option had been partially exercised by UOB Asia on behalf of the international placing underwriters. 14,460,000 Over-allotment Shares were issued to Billion Era International Limited, a company wholly-owned by Messer. Chung Wai Ping on 19 July 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Board is pleased to announce the Group's first interim results after its listing on the Main Board of the Stock Exchange on 29 June 2007. The successful listing has laid a solid foundation for the Group's future expansion plans, enabling it to accelerate expansion of its retail network and increase awareness of its brand names, both in Hong Kong and Mainland China.

As the purchasing power of the general public has increased in recent years, demand for quality food and restaurants continued to grow throughout Hong Kong and the Southern China, which had directly benefited the Group's business in both markets. The Group's revenue for the six months ended 30 June 2007 was approximately HK$979.0 million, representing an increase of 28.7% as compared to that of the previous year. The Group's net profit attributable to equity holders increased by 54.9% to approximately HK$112.1 million. Excluding the gain on disposal of office properties of approximately HK$30.8 million and the share issue expenses of approximately HK$6.1 million (net of approximately HK$28.7 million charged to share premium account), the Group's profit generated from its core operations for the six months ended 30 June 2007 was approximately HK$87.4 million (2006: approximately HK$72.3 million), representing an increase of 20.9% as compared to that of the previous year.

Gross profit margin for the six months ended 30 June 2007 decreased slightly to 66.6% (2006: 68.3%). Such decrease was mainly attributable to the increase in raw material costs and the inclusion of the Group's Mainland China business since 1 January 2007 which generated relatively lower gross profit margin of 59.3% as compared to 67.7% for the Group's Hong Kong operations. To minimise impact from raw material supply problems such as increasing pork prices and unstable fresh beef supply, ingredient mix of some of the Group's products have been changed accordingly, such as increasing proportions of chicken, bean products or vegetables. Besides, the centralised and bulk purchasing functions assumed by the Group's logistics centres had enabled the Group to purchase directly from the raw materials' sources of origins at better prices. With the export sales (i.e. supplying to the Group's restaurants in Hong Kong) by the Dongguan logistics centre expected to commence later this year, it is expected that the amount of food to be purchased through central procurement will be increased, which will further help to minimise the negative impact from rising food costs.

Sales to airlines and corporate caterers recorded substantial growth during the period under review but was still relatively insignificant to the Group's total revenue. The management of the Group believes that this business segment will grow healthily as demand continues to increase with the new Dongguan logistics centre commences its operation enabling the Group to benefit from economies of scale and achieve cost savings.

Hong Kong operations

As at 30 June 2007, the Group operates a total of 42 restaurants in Hong Kong (31 December 2006: 40 restaurants). Two new restaurants were opened in January and May 2007 respectively.

For the six months ended 30 June 2007, the Group's revenue can be analysed as follows:

	Six months ended 30 June		
	2007	2006	
	(Unaudited)	(Unaudited)	% Increase
	HK$'000	*HK$'000*	
Restaurant operations	**841,883**	751,810	12.0%
Sale of food and other operating items	**12,496**	6,545	90.9%
	854,379	758,355	12.7%

The increase in revenue from Hong Kong's restaurant operations was mainly due to the increase in the number of outlets. Sales of same restaurants showed a slight increase in average of 2.1% for the current period as compared to that of the corresponding period last year.

For the six months ended 30 June 2007, profit attributable to equity holders, excluding the gain on the disposal of office properties of approximately HK$30.8 million and share issue expenses of approximately HK$6.1 million, amounted to approximately HK$76.7 million (2006: approximately HK$74.9 million), representing a slight increase of 2.4% as compared to that of the same period last year. Decreased profit margin to 9.0% (2006: 9.9%) despite rising revenue was mainly due to the closure of three Tao Heung Seafood Hotpot Restaurants for renovation under the Group's re-branding program and the closure of the restaurants in Hau Tak Shopping Centre in Tseung Kwan O for a month due to the fire incident happened in the shopping mall which reduced the margin for those restaurants operations.

Mainland China operations

As at 31 December 2006, the Group had one restaurant in Shenzhen. The Group acquired 100% equity interests in the PRC Group, which owned two restaurants in Shenzhen and Guangzhou, respectively, on 1 January 2007. In addition, two more restaurants (one in Guangzhou and one in Shenzhen) were opened during the period under review. Accordingly, as at 30 June 2007, the Group had a total of seven restaurants in Mainland China.

Revenue for Mainland China restaurant operations was amounted to approximately HK$124.6 million during the period under review, representing 12.7% of the Group's total revenue. The increase in revenue from the Mainland China segment was mainly due to the revenue contributed by the companies acquired under the Acquisition amounting to approximately HK$93.0 million and the opening of the two new restaurants during the period under review.

For the six months ended 30 June 2007, profit attributable to equity holders from the Mainland China segment was approximately HK$10.7 million, representing 9.5% of the Group's total profit attributable to equity holders.

Other income and gains

The increase in other income and gains by approximately HK$37.1 million during the period under review was mainly attributable to the recognition of the gain on the disposal of office properties of approximately HK$30.8 million during the period under review and the interest income generated from the proceeds received in connection with the initial public offerings in Hong Kong.

Operating expenses

The Group's operating expenses mainly consisted of staff costs, rental expenses and depreciation. For the period under review, the staff costs to the revenue ratio decreased to 27.6% (2006: 29.1%) and the rental expenses to the revenue ratio also dropped to 6.5% (2006: 6.8%) Depreciation charges increased for the six months ended 30 June 2007 as the Group had launched the re-branding program of all its outlets under the brand of *Tao Heung Seafood Hotpot Restaurants* since the second half of 2006. Besides, the opening of four more restaurants was also a contributing factor to the increase in the overall operating expenses as well.

Financial resources and liquidity

The Group maintained a strong financial and liquidity position for the six months ended 30 June 2007. The total assets increased by 71.3% to approximately HK$1,197.1 million (2006: approximately HK$699.0 million), while the total equity increased by 132.4% to approximately HK$847.5 million (2006: approximately HK$364.7 million).

As at 30 June 2007, the Group had the cash and cash equivalents amounting to approximately HK$523.6 million. After deducting the total interest-bearing bank borrowings of approximately HK$92.4 million, the Group had a net cash surplus position of approximately HK$431.2 million. In view of its cash-rich position, the Group continues to explore any investment or business development opportunities to deploy its cash resources with an aim to enhance the Group's profitability and values to its shareholders.

As at 30 June 2007, the Group's total interest-bearing bank borrowings were reduced to approximately HK$92.4 million (2006: approximately HK$116.1 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 assets) was reduced to 0.08 (2006: 0.17).

Use of proceeds

The proceeds from the initial public offerings in Hong Kong, after deduction of related issuance expenses, amounted to approximately HK$385.0 million. For the six months ended 30 June 2007, no proceeds have been utilised and the proceeds have been deposited with licensed banks and financial institutions in Hong Kong as short term interest-bearing deposits.

Material acquisitions and disposals

On 1 January 2007, the Group entered into a sale and purchase agreement with Messrs. Chung Wai Ping and Chung Ming Fat, the directors and shareholders of the Company, to acquire 100% equity interests in the PRC Group for a total cash consideration of HK$51,000,000. The PRC Group is principally engaged in the restaurant operations in Mainland China. The fair values of net assets acquired were approximately HK$38.8 million, and a goodwill of approximately HK$13.8 million was capitalised as a result of the Acquisition. Detailed information in respect of the Acquisition is set forth in note 23 of the Interim Financial Statements to this announcement.

Save as disclosed above, there were no material acquisition or disposals of investments and subsidiaries during the six months ended 30 June 2007.

Capital expenditure

Capital expenditure for the six months ended 30 June 2007 amounted to approximately HK$123.1 million and the capital commitments as at 30 June 2007 amounted to approximately HK$62.1 million. Both the capital expenditure and capital commitments were mainly related to the renovation of the Group's new and existing restaurants, the construction works and capital contribution to Dongguan logistics centre.

Security

As at 30 June 2007, the following Group's assets were pledged to secure the Group's bank borrowings:

(a) all the leasehold land and buildings in Hong Kong with a carrying amount of approximately HK$101.4 million;

(b) all investment properties with a total carrying amount of approximately HK$13.0 million;

(c) assets classified as held for sale with a total carrying amount of approximately HK$5.6 million;

(d) pledged bank deposits of the Group of approximately HK$10.9 million.; and

(e) the investment fund with fair value of approximately HK$16.0 million.

Contingent liabilities

As at 30 June 2007, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$21.1 million (31 December 2006: approximately HK$19.3 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2007 were mostly denominated in Hong Kong Dollars and Renminbi. The Group was exposed to minimal foreign currency exchange risk, and did not anticipate any potential future currency fluctuations that would result in the Group experiencing material operational difficulties or liquidity problems during the period under review. The Group will continue to monitor its foreign exchange position and try to minimise its risk as much as possible.

Human resources

As at 30 June 2007, the Group had 5,578 employees. In order to attract and retain the high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 30 June 2007, about 15,190,000 options were granted under the Pre-IPO Share Option Scheme and no such share options have been exercised yet. Also, as at 30 June 2007, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Outlook

Having considered the rising trend of per capita income of the people in both Hong Kong and Mainland China, it is believed that purchasing power of the people in both markets will continue to increase. As the living standard of the Chinese keeps improving, demand for quality food and dining places is expected to surge at the same time. The Group is well positioned to capture this good market opportunity presented by the Mainland China market. Moving forward, the management of the Group is optimistic that the Group will continue to accomplish healthy growth in the second half of the financial year, as well as the years ahead.

The Group will continue to expand its network of Chinese restaurants in both Hong Kong and Mainland China at prime locations. The Group will also continue to adopt a multi-branding strategy in order to increase its market share and to offer customers with different choices of Chinese cuisines. The Group targets to open five new restaurants in Hong Kong and two new restaurants in Mainland China in the second half of 2007. The management of the Group expects the rental costs for both markets will remain relatively stable while food costs will continue to increase. With the Dongguan logistics centre commenced operation in early September 2007, the Group is well prepared to mitigate the negative impact from rising food costs.

The management of the Group believes that good cost control and margin improvement are keys to the Group's business expansion. In order to improve overall margin level, the Group will continue to implement stringent cost control measures, achieve cost savings and economies of scale from the operation of logistics centres at Fo Tan and Dongguan, and strategically select new restaurant locations.

The Dongguan logistics centre has commenced its operation and local sales in early September 2007. Export sales are expected to commence in the fourth quarter this year when the necessary licenses are obtained. It is expected that the full operation of the Dongguan logistics centre will not only lower the operational cost and improve profit margin of the Group's restaurant business, but will also enable standardisation and quality control of the Group's food products, as well as development of other profitable business opportunities. With the increased production capacity supported by its Dongguan logistics centre, the Group is now actively exploring the opportunity to expand into its peripheral business segments such as airline catering and supplying for other catering service operators as well as retail distributors. The management of the Group is confident that such business will be commenced in the fourth quarter of this financial year, which will provide another high margin income sources for the Group.

Looking ahead, the Group will continue to provide quality food and services, as well as dining experience and environment for its customers, so as to become one of the most popular and highly regarded Chinese restaurant groups in Hong Kong and in the Mainland China. The Group will continue to dedicate its efforts in achieving long term sustainable growth in revenue and profit margins, so as to deliver satisfactory returns to its shareholders.

OTHER INFORMATION

Dividends

In acknowledging continuous support from the Group's shareholders, the directors of the Company (the "**Directors**") have declared the payment of an interim dividend of HK3.25 cents per ordinary share and a special interim dividend of HK2.96 cents per ordinary share in respect of the year ending 31 December 2007, payable on 16 October 2007 to shareholders whose names appear on the register of members of the Company on 8 October 2007.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 3 October 2007 to Monday, 8 October 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim and special 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 2 October 2007.

Corporate Governance

During the six months ended 30 June 2007, the Company has compiled with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Audit Committee

The Company established the Audit Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes, the internal control systems and licensing issue of the Group. Currently, Mr. Mak Hing Keung, Thomas, Mr. Li Tze Leung and Professor Chan Chi Fai, Andrew, all being independent non-executive Directors, are members of the Audit Committee with Mr. Mak Hing Keung, Thomas, being the chairman.

Nomination Committee

The Company established the Nomination Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Nomination Committee has three members comprising Professor Chan Chi Fai, Andrew, Mr. Ng Yat Cheung and Mr. Chan Yue Kwong, Michael, two of whom are independent non-executive Directors. The chairman of the Nomination Committee is Professor Chan Chi Fai, Andrew. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of Directors and the management of the Board succession.

Remuneration Committee

The Company established the Remuneration Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Schemes. The Remuneration Committee has three members comprising Mr. Li Tze Leung, Mr. Fong Siu Kwong and Mr. Mak Hing Keung, Thomas, two of whom are independent non-executive Directors. The Remuneration Committee is chaired by Mr. Li Tze Leung.

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 dealings in securities of the Company by the directors (the ''**Code**''). The Company, having made specific enquiry of all Directors, confirms that its Directors had compiled with the required standard set out in the Code throughout the six months ended 30 June 2007.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

Disclosure of information on the Stock Exchange's website

The electronic version of this announcement will be published on the website of the Stock Exchange *(www.hkex.com.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 its 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, 12 September 2007

As at the date of this announcement, the board of directors of the Company comprised 12 directors, of which six are executive directors, namely Mr. Chung Wai Ping, Mr. Wong Ka Wing, Mr. Chung Ming Fat, Mr. Leung Yiu Chun, Ms. Wong Fun Ching and Mr. Ho Yuen Wah; two are non-executive directors, namely Mr. Fong Siu Kwong and Mr. Chan Yue Kwong, Michael and four are independent non-executive directors namely Mr. Li Tze Leung, Professor Chan Chi Fai, Andrew, Mr. Mak Hing Keung, Thomas and Mr. Ng Yat Cheung.

* *For identification purpose only*