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 2014

HIGHLIGHTS

	For the six months ended 30 June		% Change Increase/ (Decrease)
	2014 *(HK$ Million)*	2013 *(HK$ Million)*	
Revenue	**2,218.5**	2,126.0	4.4
Hong Kong	**1,485.4**	1,499.4	(0.9)
Mainland China	**733.1**	626.6	17.0
EBITDA	**299.0**	304.7	(1.9)
Profit attributable to owners of the parent	**128.0**	139.0	(7.9)
Basic earnings per share (HK cents)	**12.53**	13.60	(7.9)
Proposed interim dividend per share (HK cents)	**6.0**	6.2	(3.2)
No. of restaurants and bakery outlets at 30 June	**145**	133	
No. of restaurants and bakery outlets at announcement date	**145**	136	

* *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 2014 together with comparative figures for the corresponding period in 2013. These interim condensed consolidated financial statements for the six months ended 30 June 2014 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 2014

		Six months ended 30 June	
		2014	2013
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*5*	**2,218,520**	2,126,009
Cost of sales		**(1,931,611)**	(1,821,440)
Gross profit		**286,909**	304,569
Other income and gains, net	*5*	**5,322**	10,413
Selling and distribution expenses		**(44,878)**	(42,872)
Administrative expenses		**(93,768)**	(101,450)
Finance costs	*6*	**(1,896)**	(1,452)
PROFIT BEFORE TAX	*7*	**151,689**	169,208
Income tax expense	*8*	**(26,904)**	(29,932)
PROFIT FOR THE PERIOD		**124,785**	139,276
Attributable to:			
Owners of the parent		**128,029**	138,978
Non-controlling interests		**(3,244)**	298
		124,785	139,276
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	*10*	**HK12.53 cents**	HK13.60 cents
– Diluted	*10*	**HK12.50 cents**	HK13.56 cents

Details of the dividend payable and proposed for the period are disclosed in note 9 to this announcement.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**124,785**	139,276
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(29,388)**	14,849
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**95,397**	154,125
Attributable to:		
Owners of the parent	**99,340**	153,303
Non-controlling interests	**(3,943)**	822
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**95,397**	154,125

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	Notes	**30 June 2014 (Unaudited)** ***HK$'000***	31 December 2013 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**1,451,248**	1,475,878
Prepaid land lease payments		**61,225**	63,480
Investment properties	*11*	**14,850**	14,850
Goodwill	*12*	**40,362**	40,804
Intangible asset		**1,369**	1,451
Investments in associates		**1,251**	1,251
Biological assets		**2,853**	2,105
Deferred tax assets		**77,563**	71,731
Rental deposits		**117,664**	108,355
Deposits for purchases of property, plant and equipment		**65,898**	104,163
Total non-current assets		**1,834,283**	1,884,068
CURRENT ASSETS			
Inventories		**159,724**	174,813
Biological assets		**19,665**	15,618
Trade receivables	*13*	**27,199**	28,196
Prepayments, deposits and other receivables		**137,479**	112,596
Tax recoverable		**20,868**	10,441
Pledged deposits		**13,427**	13,268
Cash and cash equivalents		**269,875**	371,267
Total current assets		**648,237**	726,199

	Notes	**30 June 2014 (Unaudited)** ***HK$'000***	31 December 2013 (Audited) *HK$'000*
CURRENT LIABILITIES			
Trade payables	*14*	**154,271**	182,647
Other payables and accruals		**256,637**	275,359
Interest-bearing bank borrowings		**89,831**	183,132
Finance lease payables		**208**	214
Tax payable		**41,784**	31,868
Total current liabilities		**542,731**	673,220
NET CURRENT ASSETS		**105,506**	52,979
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,939,789**	1,937,047
NON-CURRENT LIABILITIES			
Other payables and accruals		**82,926**	82,394
Interest-bearing bank borrowings		**40,000**	68,333
Finance lease payables		**659**	784
Due to non-controlling shareholders of subsidiaries		**23,070**	23,381
Deferred tax liabilities		**20,312**	20,369
Total non-current liabilities		**166,967**	195,261
Net assets		**1,772,822**	1,741,786
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**102,161**	102,161
Reserves		**1,589,607**	1,551,564
Proposed dividend	*9*	**61,297**	64,361
		1,753,065	1,718,086
Non-controlling interests		**19,757**	23,700
Total equity		**1,772,822**	1,741,786

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2014

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at No. 18 Dai Fat Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

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

– restaurant operations and provision of food catering services

– bakery operations

– production, sale and distribution of food products related to restaurant operations

– provision of poultry farm operations

2. BASIS OF PRESENTATION AND PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 (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 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 2013.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those used in the financial statements of the Group for the year ended 31 December 2013, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's accounting period beginning on or after 1 January 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendment to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount – Disclosures for Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)–Int 21	*Levies*

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

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

HKFRS 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 11 Amendments	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[2]
HKFRS 15	*Revenue from Contracts with Customers*[3]
HKAS 16 and HKAS 38 Amendments	*Clarification of Acceptable methods of Depreciation and Amortisation*[2]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[1]
Annual Improvements 2010–2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]
Annual Improvements 2011–2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] No mandatory effective date yet determined but is available for adoption

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

4. OPERATING SEGMENT INFORMATION

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

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2014 and 2013 and certain non-current asset information as at 30 June 2014 and 31 December 2013, by geographic area.

(a) Revenue from external customers

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**1,485,376**	1,499,358
Mainland China	**733,144**	626,651
	2,218,520	2,126,009

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

(b) *Non-current assets*

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
Hong Kong	**617,158**	625,077
Mainland China	**1,021,898**	1,078,905
	1,639,056	1,703,982

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

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents gross revenue from restaurant, bakery and poultry farm revenue and net invoiced value of goods sold, after deduction of relevant taxes and allowances for trade discounts.

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

	Six months ended 30 June	
	2014 (Unaudited) *HK$'000*	2013 (Unaudited) *HK$'000*
REVENUE		
Restaurant and bakery operations	**2,096,636**	2,005,005
Sale of food	**75,079**	72,321
Poultry farm operations	**46,805**	48,683
	2,218,520	2,126,009
OTHER INCOME AND GAINS, NET		
Bank interest income	**1,072**	783
Gross and net rental income from investment properties	**227**	233
Gross rental income from sublease of poultry market	**–**	4,122
Sponsorship income	**2,132**	1,879
Gain on disposal of items of property, plant and equipment, net	**–**	60
Others	**1,891**	3,336
	5,322	10,413

6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable		
– Within five years	**1,877**	1,438
– Beyond five years	**5**	6
Interest on finance leases	**14**	8
Total interest expense on financial liabilities not at fair value through profit or loss	**1,896**	1,452

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**736,192**	719,004
Depreciation	**144,838**	133,413
Amortisation of land lease payments	**602**	600
Gross and net rental income from investment properties	**(227)**	(233)
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	**572,813**	538,453
Retirement benefit scheme contributions	**34,578**	32,045
	607,391	570,498
Lease payments under operating leases in respect of land and buildings:		
Minimum lease payments	**174,043**	158,870
Contingent rents	**5,784**	7,688
	179,827	166,558
Foreign exchange differences, net	**2,584**	298
Gain on disposal of items of property, plant and equipment, net	**–**	(60)
Write-off of items of property, plant and equipment	**341**	374

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2014. 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	*HK\$'000*
Current – Hong Kong		
Charge for the period	**16,798**	18,687
Current – Elsewhere	**16,487**	14,030
Deferred	**(6,381)**	(2,785)
Total tax charge for the period	**26,904**	29,932

9. DIVIDEND

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	*HK\$'000*
Proposed interim – HK6.00 cents (2013: HK6.20 cents) per ordinary share	**61,297**	63,340

The proposed dividend for the period under review has been approved at the Company's board meeting held on 21 August 2014.

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 2014 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,021,611,000 (period ended 30 June 2013: 1,021,611,000) in issue during the period under review.

The calculation of the diluted earnings per share amount is based on the unaudited consolidated profit for the six month ended 30 June 2014 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,021,611,000 (period ended 30 June 2013: 1,021,611,000), as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 2,914,656 (period ended 30 June 2013: 3,067,361) assumed to have been issued at no consideration on the deemed exercise of all shares options into ordinary shares.

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**128,029**	138,978

	Number of shares	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,021,611,000**	1,021,611,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,914,656**	3,067,361
	1,024,525,656	1,024,678,361

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2014, additions of property, plant and equipment and investment properties amounted to HK$98,501,000 in aggregate (2013: HK$137,682,000).

As at 30 June 2014, leasehold land and buildings with the net carrying amount of approximately HK$39,515,000 (31 December 2013: HK$40,037,000) situated in Hong Kong were pledged to secure banking facilities granted to the Group.

As at 30 June 2014, the Group's investment properties with a total carrying amount of HK$12,650,000 (31 December 2013: HK$12,650,000) situated in Hong Kong were pledged to secure banking facilities granted to the Group.

12. GOODWILL

	30 June 2014	31 December 2013
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Carrying amount at beginning of the period/year	**40,804**	38,569
Acquisition of subsidiaries	**–**	1,879
Exchange realignment	**(442)**	356
Carrying amount at end of the period/year	**40,362**	40,804

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 end of the reporting period, based on the payment due date and that are not considered to be impaired, is as follows:

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
	HK$'000	*HK$'000*
Neither past due nor impaired	**12,482**	11,802
Less than 1 month past due	**5,980**	8,236
1 to 3 months past due	**5,389**	4,135
Over 3 months past due	**3,348**	4,023
	27,199	28,196

14. TRADE PAYABLES

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

	30 June 2014 (Unaudited)	31 December 2013 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**134,528**	164,506
1 to 2 months	**7,931**	8,402
2 to 3 months	**4,276**	4,440
Over 3 months	**7,536**	5,299
	154,271	182,647

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

15. CONTINGENT LIABILITIES

	30 June 2014	31 December 2013
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Bank guarantees given in lieu of utility and property rental deposits	**26,820**	27,631

16. OPERATING LEASE ARRANGEMENTS

(i) As lessor

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

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

	30 June 2014	31 December 2013
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within one year	**6**	6

(ii) As lessee

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

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

	30 June 2014	31 December 2013
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within one year	**322,893**	301,838
In the second to fifth years, inclusive	**636,679**	594,254
Beyond five years	**285,474**	305,088
	1,245,046	1,201,180

The operating leases of certain restaurant and bakery properties also call for additional rentals, which will be based on certain percentage of revenue of the 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 end of the reporting period, the relevant contingent rental has not been included.

17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16(ii) above, the Group had the following capital commitments as at the end of the reporting period:

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
Contracted but not provided for:		
Property, plant and equipment	**46,845**	39,003
Building	**77,701**	60,341
	124,546	99,344

18. RELATED PARTY TRANSACTIONS

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

(a) Transaction with a related party

Particulars of significant transaction between the Group and a related party are summarised as follows:

		Six months ended 30 June	
	Note	**2014 (Unaudited)** *HK$'000*	2013 (Unaudited) *HK$'000*
Rental expense to a related party	*(i)*	**24**	24

Note:

(i) The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, was charged based on mutually agreed terms at a monthly fixed amount of HK$4,000 (2013: HK$4,000).

The related party transaction as disclosed above also constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(b) **Key management compensation**

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short term employee benefits	**2,115**	2,795
Post-employment benefits	**44**	43
	2,159	2,838

19. EVENT AFTER THE REPORTING PERIOD

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

BUSINESS REVIEW

The Board wishes to announce the Group's unaudited interim results for the six months ended 30 June 2014. During the reporting period, the Group continued to face challenging business conditions in Hong Kong, which included the sharp rise in rent, decline in Mainland Chinese visitors and lacklustre economic growth leading to weak consumption sentiment. Conditions in Mainland China have however improved, driven by healthier demand from middle-class consumers, particularly families, as well as a pick-up in the wedding and banquet business.

Financial Results

Supported by growth from the Mainland China operations, the Group recorded a modest rise in revenue during the period, up 4.4% to HK$2,218.5 million (2013: HK$2,126.0 million).

Earnings before interest expense, taxes, depreciation and amortisation (EBITDA) amounted to HK$299.0 million, thus remaining at a similar level with the corresponding period of last year (2013: HK$304.7 million). Profit attributable to owners of the parent contracted by 7.9% to HK$128.0 million (2013: HK$139.0 million).

The Board has proposed an interim dividend of HK6.0 cents per share for the six months ended 30 June 2014, which is equivalent to a dividend payout ratio of 47.9%.

Mainland China Operations

As at the reporting period, the Mainland China operations realised double-digit revenue growth, climbing by 17.0% to HK$733.1 million as compared to the last corresponding period. Consequently, this segment delivered greater contributions to the Group; accounting for 33.0% of the Group's total revenue in the first half of 2014, compared to 29.5% in 2013.

In respect of network expansion, the Group opened one restaurant in Guangzhou and Zhengzhou respectively. This raises the total number of restaurants to 32 as at the reporting period, up from 27 restaurants during the same time last year. The management presently has plans to open five restaurants in the upcoming half year, including the establishment of three restaurants in Shanghai, one of which would be a HITEA restaurant, along with one restaurant in Shenzhen and Guangzhou respectively.

While a greater number of restaurants partly contributed to the increase in revenue, a further reason is the public's growing acceptance of austerity measures implemented by the Central Government. Having from the outset focused on the middle-class consumer segment through the implementation of a well-defined strategy, such a decision has proved to be highly astute. During the reporting period, consumption among families accounted for a significant proportion of the rise in revenue, while weddings and banquets were also contributors to the increase in turnover. Overall, low single-digit growth was achieved for both same-store sales and average spending per head compared to respective declines in the corresponding period of last year.

However, profit attributable to owners of the parent slipped slightly to HK$35.6 million. Excluding the Group's poultry business which faced severe challenges during the reporting period due to the termination of the wholesale business and declining prices for poultry and pork, profit attributable to owners of the parent would have amounted to HK$35.3 million, representing an 19.2% increase as compared to the last reporting period for the Group's restaurant, bakery and logistics business.

Though Bakerz 180 remained in a development stage during the reporting period, it has steadily expanded. Having only been acquired by the Group in 2013 – the Group possess 60% of its shareholding. The group operated a total of 10 outlets out of Southern China at the reporting period. This network will be further expanded in the remaining year with the opening of one shop in Guangzhou and seven shops in Shenzhen. As Bakerz 180 continues to extend its reach, greater economies of scale will also be realised and it is expected to reach operational breakeven points in 2015. Moreover, the management is optimistic about the bakery chain's long-term growth since it remains one of only a few name brand bakeries operating in the southern China market.

Hong Kong Operations

As at 30 June 2014, revenue recorded from the Hong Kong operations totalled HK$1,485.4 million, representing a marginal decline of 0.9% (2013: HK$1,499.4 million). Nonetheless, it remained the principal revenue source of the Group, accounting for 67.0% of the Group's total turnover.

Weak consumption sentiment during the period, caused by lacklustre economic growth and high inflationary pressure, was among the factor that hampered the performance of the Hong Kong operations. The decrease in number of tourists from Mainland China further aggravated the Group's business, especially in the months of April and May. Notwithstanding the contraction in same stores sales by a low single-digit in the first half of 2014 as the result of a decline in customer traffic, the contraction was improved. The slump in sales was not isolated to Tao Heung, however, as findings disclosed by the catering association in Hong Kong showed that it was an industry-wide phenomenon. According to the association, the performance of the catering sector in March and April was at its worst level in the past five and ten years respectively, owing to a sharp decline in Mainland tourists. As a result, profit attributable to owners of the parent dropped by 9.8% to HK$92.4 million (2013: HK$102.4 million).

As has been the tried, tested and trusted practice of the Group, popular promotions were again employed during the reporting period. Along with the Group's signature "HK$1 Chicken" and "Double Happiness" (筷樂孖寶) offers, the Group also introduced the "Hotpot Promotion" (火鍋三招) which complemented seasonal demand. These promotions were again effective at helping stimulate consumption and limiting the general decline in patrons that many industry players experienced due to the previously noted factors.

During the review period, rent was yet another impediment that affected the Hong Kong operations. Along with soaring rent during the period, the Group had to deal with the growing practice among landlords of subdividing their properties into smaller spaces so as to generate higher profits. As Chinese restaurants generally require relatively large floor area, this posed a clear challenge. To contend with this practice, the management has been adjusting the Group's shop opening strategy accordingly, focusing on the establishment of smaller restaurants and introducing non-Chinese cuisine restaurants such as “RingerHut” and “T CAFÉ 1954”, as well as opening more Tai Cheong Bakery outlets. Moreover, the Group has continued to consolidate its business, closing underperforming locations and only opening new establishments where they represent good business prospects in order to raise the overall operation efficiency of Hong Kong operations. As a result, the Group operated a total of 76 restaurants in Hong Kong as at 30 June 2014; down from 79 restaurants at the end of 2013.

With respect to the Tai Cheong Bakery operation, the Group operated a total of 27 outlets as at the reporting period, up from 23 outlets for the same period last year. Given the soundness of this business, which along with Bakerz 180 enables Tao Heung to expand its overall retail channels, the management will continue directing investments in bolstering the Tai Cheong Bakery operation in the coming years.

Logistics centres

The Tai Po and Dongguan Logistics Centres are key components of the Group’s vertical integration hierarchy. In addition to supporting all of the Group’s restaurants, bakery operations and peripheral businesses, they ensure that the Group’s reputation for quality and excellence is protected. Consequently, the efficiency of both centres is continuously monitored, while efforts are also made to further bolster their capabilities. The Tai Po and Dongguan Logistics Centres currently achieve a monthly output of 1,050 tonnes per month, respectively and once Dongguan Phase 2 is launched in 2015, still greater output and efficiency will be realised.

Peripheral business

During the reporting period, the peripheral business continued to provide an additional source of revenue to the Group, reaching HK$121.9 million as at 30 June 2014 (2013: HK$121.0 million). The declining prices for poultry and pork led to a smaller profit for this segment. The poultry farm nonetheless remains an important asset of the Group, providing a stable and safe source of quality pork and poultry that are essential for its restaurant operations.

Financial resources and liquidity

The total assets decreased by 4.9% to approximately HK$2,482.5 million (31 December 2013: approximately HK$2,610.3 million) while the total equity increased by 1.8% to approximately HK$1,772.8 million (31 December 2013: approximately HK$1,741.8 million).

As at 30 June 2014, the Group had the cash and cash equivalents amounting to approximately HK$269.9 million. After deducting the total interest-bearing bank borrowings of HK$129.8 million, the Group had a net cash surplus position of approximately HK$140.1 million.

As at 30 June 2014, the Group’s total interest-bearing bank borrowings were decreased to approximately HK$129.8 million (31 December 2013: approximately HK$251.5 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings and finance lease payables divided by the total equity attributable to the owners of the Company) was decreased to 7.5% (31 December 2013: 14.7%).

Capital expenditure

Capital expenditure for the six months ended 30 June 2014 amounted to approximately HK$98.5 million (2013: HK$137.7 million) and the capital commitments as at 30 June 2014 amounted to HK$124.5 million (31 December 2013: HK$99.3 million). The capital expenditure was mainly for the renovation of the Group's new and existing restaurants and two logistics centres. The capital commitments were related to the renovation of the Group's new restaurants in Mainland China and the construction of phase 2 of Dongguan Logistics Centre.

Pledge of assets

As at 30 June 2014, the Group pledged its bank deposits of approximately HK$13.4 million, leasehold land and buildings of approximately HK$39.5 million and investment properties of approximately HK$12.7 million to secure the banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2014, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$26.8 million (31 December 2013: approximately HK$27.6 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2014 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 would monitor the foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

Human resources

As at 30 June 2014, the Group had 9,748 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 2014, there are 3,990,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Also, as at 30 June 2014, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Prospects

Looking ahead, the Group anticipates the remaining financial year will continue to present a mixture of opportunities and challenges. While consumption sentiment in Hong Kong is expected to remain erratic, the momentum for greater consumption in Mainland China is likewise expected. Consequently, the management will closely monitor both markets and employ relevant strategies to capitalise on the given conditions.

With regards to the Mainland China market, a recent report issued by the China Cuisine Association revealed that the local catering industry achieved turnover of RMB1,298.9 billion in the first half of 2014, which represented a 10.1% year-on-year rise. Such expansion gained pace in the second quarter of the year, during which double-digit growth was recorded. With some industry experts stating that the catering sector is now entering a period of consolidation, and those restaurant operators that are best able to capitalise on the Central Government's austerity policies will become the real winners, the management will pay close attention to market developments. While the upturn in consumption promises new opportunities on the horizon, it remains incumbent on the Group to take the necessary measures to seize such opportunities. The management will therefore continue building on the success of its existing network. In particular, the Group will focus on first-tier cities as this corresponds with its strategy of catering for middle-class consumers. Over the next six months, the Group will open five new restaurants in the country, specifically in the cities of Guangzhou, Shenzhen and Shanghai; having realised promising returns from these metropolitan centres in the past.

Despite the increasing challenge of operating in Hong Kong, the city continues to present numerous opportunities. To raise the Group's competitiveness in a market that is expected to further weaken as consumption sentiment stagnates and the number of Mainland tourists continue to decline, the management will employ proven strategies that are sensitive to current market conditions. This will include the ongoing introduction of popular Tao Heung's promotions for which it is renowned, i.e. "HK$1 Chicken" and "Double Happiness" (筷樂孖寶) value-for-money offers. The Group will also strengthen its network with the opening of two new restaurants in the coming half year, while weaker performing restaurants will concurrently be removed. The newly established "RingerHut" business will be enlarged as well with the addition of two new restaurants, thus further strengthening the Group's presence in the Japanese cuisine segment, as well as enhancing its ability to appeal to younger consumers. The Tai Cheung Bakery network will likewise see the addition of one to two more outlets before the close of 2014.

Though the operating environment will remain difficult in the city, there are several developments that hint at more positive prospects on the horizon. With adjustments underway in the tourism industry, rental rates are anticipated to gradually dip, particularly for second-tier shops, by some industry estimates. Moreover, inflation has experienced a steady decline, standing at 3.6% in June, which is the lowest level in nearly one and a half years. The decline in rent and inflation would therefore help alleviate cost pressures that the catering industry is acutely aware of.

Regardless of how the two markets will play out in the coming months, the management remains confident in the Group's ability to overcome challenges and realise long-term growth. With clear development strategies in place, sound financial management and prudent leadership, the Group is well on its way to realising its goal of operating a catering network of 200 outlets by 2017.

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 2014, payable on Monday, 13 October 2014 to shareholders whose names appear on the register of members of the Company on Tuesday, 30 September 2014.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 3 October 2014 to Tuesday, 7 October 2014, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 30 September 2014.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2014, the interests and short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

		Number of ordinary shares (long position)					
Name of Directors	*Notes*	**Personal interests**	**Family interests**	**Corporate interests**	**Equity derivatives**	**Total interests**	**% of total issued shares**
Executive Directors							
Mr. Chung Wai Ping	*(a) and (d)*	–	12,174,222	379,855,689	–	392,029,911	38.37
Mr. Wong Ka Wing	*(b)*	5,522,679	–	103,283,124	–	108,805,803	10.65
Mr. Chung Ming Fat	*(c)*	–	–	56,795,068	–	56,795,068	5.56
Mr. Leung Yiu Chun		800,000	–	–	–	800,000	0.08
Ms. Wong Fun Ching		800,000	–	–	–	800,000	0.08
Mr. Ho Yuen Wah		2,000,000	–	–	–	2,000,000	0.20
Non-executive Director							
Mr. Fong Siu Kwong		180,000	–	–	–	180,000	0.02

Notes:

(a) 379,855,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.

(b) Of these shares, 5,522,679 shares were held by Mr. Wong Ka Wing personally and 103,283,124 shares were held by Joy Mount Investments Limited, which is wholly-owned by Mr. Wong Ka Wing.

(c) These shares were held by Whole Gain Holdings Limited, which is wholly-owned by Mr. Chung Ming Fat.

(d) 12,174,222 shares were held by Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping.

Saved as disclosed above, as at 30 June 2014, none of the directors or chief executives had registered an interest or short position in the share of underlying shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2014, the interests and short positions of every persons, other than directors or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

		Number of ordinary shares (long position)	
Name of Shareholder	*Notes*	**Directly beneficially owned**	**% of total issued shares**
Billion Era International Limited	*(a)*	379,855,689	37.18
Joy Mount Investments Limited	*(b)*	103,283,124	10.11
Perfect Plan International Limited	*(c)*	102,053,976	9.99
Value Partners Limited	*(d)*	60,772,000	5.95
Whole Gain Holdings Limited	*(e)*	56,795,068	5.56

Notes:

(a) These shares were wholly-owned by Billion Era International Limited, which is beneficially owned by Mr. Chung Wai Ping.

(b) These shares were wholly-owned by Joy Mount Investments Limited, which is beneficially owned by Mr. Wong Ka Wing.

(c) These shares were wholly-owned by Perfect Plan International Limited, which is an indirect wholly-owned subsidiary of Café de Coral Holdings Limited.

(d) These shares were wholly-owned by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Group Limited.

(e) These shares were wholly-owned by Whole Gain Holdings Limited, which is beneficially owned by Mr. Chung Ming Fat.

Save as disclosed above, as at 30 June 2014, the Directors are not aware of any other person (other than the directors or chief executive of the Company) who have the interests or short positions in the shares and underlying shares of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

Share Option Schemes

(a) Pre-IPO Share Option Scheme

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

At 30 June 2014, there are 3,990,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive.

Details of the share options outstanding as at 30 June 2014 which have been granted under the Pre-IPO Share Option Scheme are as follows:

		Number of share options					
Name	**Date of Grant**	**Outstanding at 1 January 2014**	**Granted during the period**	**Exercised during the period**	**Lapsed on expiry**	**Cancelled upon termination of employment**	**Outstanding at 30 June 2014**
Other employees	9 June 2007	4,340,000	–	–	–	(350,000)	3,990,000

(b) Share Option Scheme

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

Corporate Governance

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

The Company has 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 period ended 30 June 2014.

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 2014.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2014, 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, 21 August 2014

As at the date of this announcement, the executive directors of the Company are 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, the non-executive directors are Mr. FONG Siu Kwong and Mr. CHAN Yue Kwong, Michael and the independent non-executive directors are Mr. LI Tze Leung, Professor CHAN Chi Fai, Andrew, Mr. MAK Hing Keung, Thomas and Mr. NG Yat Cheung