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TAO HEUNG HOLDINGS LIMITED
稻香控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 573)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

	For the six months ended 30 June		
	2018	2017	**% Change Increase**
	(HK$ Million)	*(HK$ Million)*	
Revenue	**2,079.8**	1,973.0	5.4%
Hong Kong	**1,283.2**	1,260.5	1.8%
Mainland China	**796.6**	712.5	11.8%
Profit attributable to owners of the parent	**51.3**	40.8	25.7%
Basic earnings per share (HK cents)	**5.05**	4.02	25.6%
Proposed interim dividend per share (HK cents)	**5.5**	5.5	–
No. of restaurants and bakery outlets including associates			
at 30 June	**152**	159	
at announcement date	**153**	162	

* *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 2018 together with comparative figures for the corresponding period in 2017. These interim condensed consolidated financial statements for the six months ended 30 June 2018 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 2018

		Six months ended 30 June	
		2018	2017
	Notes	**(Unaudited)**	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*5*	**2,079,840**	1,972,987
Cost of sales		**(1,865,611)**	(1,786,576)
Gross profit		**214,229**	186,411
Other income	*5*	**13,304**	10,235
Selling and distribution expenses		**(52,831)**	(52,291)
Administrative expenses		**(93,084)**	(93,105)
Other expenses	*7*	**(19,825)**	–
Finance costs	*6*	**(1,433)**	(1,855)
Share of profits of associates, net		**782**	993
PROFIT BEFORE TAX	*7*	**61,142**	50,388
Income tax expense	*8*	**(19,447)**	(10,120)
PROFIT FOR THE PERIOD		**41,695**	40,268
Attributable to:			
Owners of the parent		**51,306**	40,832
Non-controlling interests		**(9,611)**	(564)
		41,695	40,268
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	*10*	**HK5.05 cents**	HK4.02 cents
– Diluted	*10*	**HK5.05 cents**	HK4.01 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**41,695**	40,268
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**42,626**	20,281
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**84,321**	60,549
Attributable to:		
Owners of the parent	**93,751**	61,095
Non-controlling interests	**(9,430)**	(546)
	84,321	60,549

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	**30 June 2018 (Unaudited)** ***HK$'000***	31 December 2017 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**1,166,988**	1,215,235
Prepaid land lease payments		**94,976**	92,742
Investment properties	*11*	**26,800**	26,800
Goodwill		**40,135**	39,556
Other intangible asset		**1,014**	1,008
Interests in associates		**9,700**	9,768
Biological assets		**–**	4,077
Deferred tax assets		**104,311**	102,850
Rental deposits		**112,932**	109,606
Deposits for purchases of items of property, plant and equipment		**82,557**	68,702
Total non-current assets		**1,639,413**	1,670,344
CURRENT ASSETS			
Inventories		**153,266**	145,207
Biological assets		**4,869**	9,450
Trade receivables	*12*	**37,870**	46,347
Prepayments, deposits and other receivables		**171,490**	144,418
Tax recoverable		**14,177**	9,394
Pledged deposits		**14,291**	13,781
Cash and cash equivalents		**507,427**	530,471
Total current assets		**903,390**	899,068
CURRENT LIABILITIES			
Trade payables	*13*	**187,029**	216,708
Other payables and accruals		**305,706**	268,898
Interest-bearing bank borrowings		**139,333**	198,584
Finance lease payable		**193**	186
Tax payable		**27,399**	16,260
Total current liabilities		**659,660**	700,636
NET CURRENT ASSETS		**243,730**	198,432
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,883,143**	1,868,776

	Notes	**30 June 2018 (Unaudited)** *HK$'000*	31 December 2017 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**92,405**	90,621
Finance lease payable		**546**	604
Due to non-controlling shareholders of subsidiaries		**8,215**	19,928
Deferred tax liabilities		**16,386**	16,386
Total non-current liabilities		**117,552**	127,539
Net assets		**1,765,591**	1,741,237
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,661**	101,661
Reserves		**1,645,242**	1,642,283
		1,746,903	1,743,944
Non-controlling interests		**18,688**	(2,707)
Total equity		**1,765,591**	1,741,237

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. CORPORATE INFORMATION

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

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

– restaurant operations and provision of food catering services

– bakery operations

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

– provision of poultry farm operations

2. BASIS OF PRESENTATION AND PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 (the "Unaudited Interim Financial Statements") have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The Unaudited Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Unaudited Interim Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the first time for the annual periods beginning on or after 1 January 2018.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

HKFRS 15 ***Revenue from Contracts with Customers***

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings in the 2017 financial year. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2017, thus the comparative figures have not been restated.

Except for the reclassification effect below, the adoption of HKFRS 15 did not have material financial impact on the Group's condensed consolidated financial statements.

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15 and, accordingly, advances received from customers of HK$62,970,000 were reclassified from receipt in advance from customers to contract liabilities under other payables and accruals.

HKFRS 9 ***Financial Instruments***

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has elected not to adjust the comparative information for the period beginning 1 January 2017, which the comparative information was prepared under classification and measurement requirements of HKAS 39.

(a) *Classification and measurement*

Except for trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables and other receivables.

The assessment of the Group's business models was made as of the date of initial application, i.e. 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39.

(b) Impairment

HKFRS 9 requires an impairment on trade receivables and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its trades receivables. Furthermore, the Group applied general approach and recorded twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2018 and 2017 and certain non-current asset information as at 30 June 2018 and 31 December 2017, by geographic area.

(a) *Revenue from external customers*

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**1,283,180**	1,260,512
Mainland China	**796,660**	712,475
	2,079,840	1,972,987

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

(b) *Non-current assets*

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Hong Kong	**461,867**	469,074
Mainland China	**960,303**	988,814
	1,422,170	1,457,888

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

5. REVENUE AND OTHER INCOME

Revenue represents gross revenue from restaurant, bakery and poultry farm operations and net invoiced value of food and other items sold, after deduction of relevant taxes and allowances for trade discounts and are recognised at a point in time.

An analysis of revenue and other income is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
REVENUE		
Restaurant and bakery operations	**1,937,386**	1,851,905
Sale of food and other items	**88,189**	88,491
Poultry farm operations	**54,265**	32,591
	2,079,840	1,972,987
OTHER INCOME		
Bank interest income	**4,005**	3,076
Gross rental income	**2,880**	1,189
Sponsorship income and government grants	**3,455**	3,312
Commission income	**1,086**	1,528
Management fee income	**501**	–
Others	**1,377**	1,130
	13,304	10,235

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**1,421**	1,852
Interest on a finance lease	**12**	3
	1,433	1,855

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**695,062**	619,596
Depreciation*	**125,114**	145,686
Amortisation of prepaid land lease payments*	**1,186**	1,105
Amortisation of other intangible asset	**43**	40
Employee benefit expense* (including directors' remuneration):		
Salaries and bonuses	**563,405**	557,457
Retirement benefit scheme contributions (defined contribution schemes)	**40,404**	38,676
Equity-settled share option expense	**1,034**	3,461
	604,843	599,594
Lease payments under operating leases*:		
Minimum lease payments	**186,798**	179,853
Contingent rents	**1,339**	1,793
	188,137	181,646
Foreign exchange differences, net	**(161)**	(185)
Loss on disposal of items of property, plant and equipment, net	**–**	309
Expected credit losses of trade receivables#	**3,569**	–
Write-off of items of property, plant and equipment	**1,164**	2,050
Impairment of items of property, plant and equipment#	**16,256**	–

* The cost of sales for the period amounting to HK$1,865,611,000 (six months ended 30 June 2017: HK$1,786,576,000) included depreciation charges of HK$117,309,000 (six months ended 30 June 2017: HK$138,531,000), amortisation of prepaid land lease payments of HK$1,186,000 (six months ended 30 June 2017: HK$1,105,000), employee benefit expense of HK$553,091,000 (six months ended 30 June 2017: HK$548,950,000) and operating lease rentals of HK$187,981,000 (six months ended 30 June 2017: HK$181,476,000).

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

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2018. 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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**10,939**	5,596
Current – Mainland China	**9,969**	10,567
Deferred	**(1,461)**	(6,043)
Total tax charge for the period	**19,447**	10,120

9. DIVIDEND

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim – HK5.50 cents (six months ended 30 June 2017: HK5.50 cents) per ordinary share	**55,914**	55,914

The proposed dividend for the period has been approved at the Company's board meeting held on 23 August 2018.

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 2018 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (period ended 30 June 2017: 1,016,611,000) in issue during the period.

For the six months ended 30 June 2018, no adjustment was made to the basic earnings per share amount in respect of a dilution as the share options had no dilutive effect on the basic earnings per share. For the six months ended 30 June 2017, the calculation of the diluted earnings per share amount was based on the unaudited consolidated profit for the six months ended 30 June 2017 attributable to ordinary equity holders of the parent, the weighted average number of ordinary shares of 1,016,611,000, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 713,941 assumed to have been issued at no consideration on the deemed conversion of all share options into ordinary shares.

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**51,306**	40,832

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,016,611,000**	1,016,611,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	713,941
	1,016,611,000	1,017,324,941

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2018, additions of property, plant and equipment amounted to HK$57,981,000 (six months ended 30 June 2017: HK$49,423,000).

As at 30 June 2018, leasehold land and buildings with a carrying amount of approximately HK$71,568,000 (31 December 2017: HK$85,498,000) were pledged to secure banking facilities granted to the Group.

As at 30 June 2018, the Group's investment properties with a total carrying amount of HK$18,700,000 (31 December 2017: HK$18,700,000) were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables	**41,439**	46,347
Allowance for expected credit losses	**(3,569)**	–
	37,870	46,347

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

An ageing analysis of the trade receivables, net of allowance for expected credit losses as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Within 1 month	**26,061**	34,290
1 to 3 months	**7,588**	8,458
Over 3 months	**4,221**	3,599
	37,870	46,347

13. TRADE PAYABLES

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

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Within 1 month	**149,107**	143,468
1 to 2 months	**31,830**	52,583
2 to 3 months	**5,380**	10,458
Over 3 months	**712**	10,199
	187,029	216,708

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

BUSINESS REVIEW

The Board hereby announces the interim results of the Group for the six months ended 30 June 2018. During the review period, consumption sentiment improved both in Hong Kong and Mainland China. This upswing, combined with the Group's efforts to optimise all facts of operation, strengthen its culinary portfolio to attract a more diversified customers base, and introduce measures to stabilise operations, has led to a modest improvement in the Group's performance.

Financial Results

As at 30 June 2018, the Group recorded revenue totalling HK$2,079.8 million, representing a year-on-year increase of 5.4% (2017: HK$1,973.0 million). The increase was principally driven by same-store sales growth, in turn the result of the rise in per head spending particularly for seafood and including late night dining–"all you can eat hotpot". Profit attributable to owners of the parent rose incrementally to HK$51.3 million (2017: HK$40.8 million). Excluding the compulsory closure of the Group's pig farm by the Mainland China Government during the period, which resulted in a one-time loss of HK$16.3 million, profit attributable to owners of the parent would have increased by 53.7% to HK$62.7 million. The Hong Kong operations has remained the principal revenue contributor of the Group, accounting for 61.7% (2017: 63.9%) of total revenue, with the Mainland China operations accounting for the remaining balance at 38.3% (2017: 36.1%).

The Board has proposed an interim dividend of HK 5.50 cents per share for the six months ended 30 June 2018, which represents a dividend payout ratio of 109.0%.

Hong Kong Operations

The Hong Kong operations achieved a modest rebound in revenue, amounting to HK$1,283.2 million (2017: HK$1,260.5 million) for the reporting period under review. Earnings before interest, tax, depreciation and amortisation (EBITDA) totalled HK$105.8 million (2017: HK$88.3 million), and profit attributable to owners of the parent was recorded at HK$48.2 million (2017: HK$27.3 million).

In the face of fierce competition, the Group employed several seasonal marketing strategies, including the promotion of seafood which is among the Group's specialities. Yet another strategy involved the continuation of the late supper session – "all you can eat hotpot" to attract target customers. All these helped to further drive same-store sales growth as well as increase per head spending. Besides such efforts, the Group has sought to further its consolidation efforts. As a consequence, eight restaurants underwent renovation since the second half of 2017, including a newly-renovated store in Mong Kok, namely, Tao Heung – The Pier Market Store which specialises in seafood was opened in mid-June adopting a style that more readily appeals to the target affluent consumer – a segment that not only appreciates fine Chinese cuisine but also a suitably sophisticated ambience. Also, a number of restaurants were either closed or rightsized. As at the end of the review period, the Group has a total of 60 restaurants in operation (2017: 66 shops), along with two (2017: three) RingerHut which are targeted towards customers inclined to non-Chinese cuisine.

In the Group’s effort to diversify its restaurant portfolio, several collaborations were realised, with more partnerships in the pipeline. Among the successes worth noting include Du Hsiao Yueh, which specialises in Taiwanese cuisine. Having opened its first Hong Kong branch in Tsim Sha Tsui in June 2017, the second restaurant located in Causeway Bay began operation during the review period. Another collaboration that the Group has engaged in involves Flamingo Bloom, which is a modern, chic Chinese tea salon that opened at ifc mall subsequent to the review period, i.e. July 2018. The management trusts that such collaborations will not only broaden the Group’s portfolio, but will also provide it with greater flexibility in terms of business development.

With regard to Tai Cheong Bakery, the Group has continued to explore overseas partnerships such as that enjoyed in tapping the Singapore market. There are 18 outlets (2017: 19 outlets) in operation as at the review period. Besides consolidating its bakery network, further efforts will be made at increasing distribution channels through collaboration with different brands and supermarkets.

In view of the persistently challenging nature of the Hong Kong catering sector, the Group will leverage the solid foundation offered by its traditional Chinese restaurants to introduce a variety of cuisines that suit different tastes of different types of customers. At the same time, the Group will continue to revamp its restaurants to increase their appeal to new generations of customers. Furthermore, it will continue to explore various marketing strategies and possible collaboration with other retail brands to diversify product offering.

Mainland China Operations

The Mainland China operations contributed HK$796.6 million (2017: HK$712.5 million) in revenue during the review period. EBITDA however decreased to HK$83.1 million (2017: HK$110.8 million), while profit attributable to owners of the parent fell to HK$3.1 million (2017: HK$13.5 million) which is due to the recognition of the one-time loss of HK$16.3 million regarding the compulsory closure of the Group’s pig farm by the Government during the review period.

Besides rightsizing, the Group has also adopted a transformative approach in order to attract customers, offering a greater variety of dishes that are both gastronomically and visually enticing. Such innovation has been witnessed before in the form of the Group’s integrated complex business model, comprising Chinese restaurant, self-owned supermarket, indoor playground, museum, shops and parking facilities covering over 22,000 sq. m. The three family-oriented complexes that the Group operates have continued to deliver stable income during the review period, attracting the patronage of middle-to high-income families. Yet another facet of the Mainland China operations that has performed particularly encouragingly is the wholesale business. Supported by the Group’s Dongguan factory, which constitutes an important competitive advantage, sales of packaged frozen food increased by 26.3%. Such an increase is also a reflection of the Group’s increasing ability to utilise e-commerce, including leveraging ties with online platforms such as Tmall.com (天貓) and JD.com (京東) – enabling the Group’s packaged food to reach customers nationwide. Yet another example of successfully tapping the internet involves its takeout service, and which it utilises such platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了嗎).

As at 30 June 2018, the Group operated a total of 46 restaurants (2017: 45 restaurants) in Mainland China. It also operated 26 Bakerz 180 outlets during the period, which contributed combined revenue of HK$14.5 million (2017: HK$14.2 million). Cost control has remained the primary focus of the Group, hence, besides capitalising on the Dongguan logistics centre, the Group has also sought to tap online sales channels to lower the impact of operating physical stores.

Peripheral Business

The supermarket business has performed well and contributed a fair proportion of revenue to the Group during the review period. Leveraging experience gained from the production of OEM products for the Hong Kong market, the Group's private label has also played a greater role in contributing to the turnover of the peripheral business. To encourage development of this segment, the Group will utilise online sales channels to reach out to key region of Mainland China, as well as place efforts on the packaging food to boost the wholesale business.

Financial resources and liquidity

As at 30 June 2018, the total assets decreased by 1.0% to approximately HK$2,542.8 million (31 December 2017: approximately HK$2,569.4 million) while the total equity increased by 1.4% to approximately HK$1,765.6 million (31 December 2017: approximately HK$1,741.2 million).

As at 30 June 2018, the Group had cash and cash equivalents amounted to approximately HK$507.4 million. After deducting the total interest-bearing bank borrowings of HK$139.3 million, the Group had a net cash surplus position of approximately HK$368.1 million.

As at 30 June 2018, the Group's total interest-bearing bank borrowings were decreased to approximately HK$139.3 million (31 December 2017: approximately HK$198.6 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 8.0% (31 December 2017: 11.4%).

Capital expenditure

Capital expenditure for the six months ended 30 June 2018 amounted to approximately HK$58.0 million (period ended 30 June 2017: approximately HK$49.4 million) and the capital commitments as at 30 June 2018 amounted to approximately HK$2.1 million (31 December 2017: approximately HK$22.9 million). The capital expenditure and the capital commitments were mainly for the renovation of the Group's new and existing restaurants and logistics centres.

Pledge of assets

As at 30 June 2018, the Group pledged its bank deposits of approximately HK$14.3 million, leasehold land and buildings of approximately HK$71.6 million and investment properties of approximately HK$18.7 million to secure the banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2018, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$16.4 million (31 December 2017: approximately HK$19.0 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2018 were mostly denominated in Hong Kong Dollars ("HK$") and Renminbi ("RMB").

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of the controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against HK$ may have impact on the Group results.

The Group currently does not maintain a foreign currency hedging policy. However, the management monitors the foreign exchange exposure and arranges foreign exchange forward contracts to minimise foreign currency exposure when appropriate.

Human resources

As at 30 June 2018, the Group had 8,220 employees. In order to attract and retain the high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted share option schemes, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 30 June 2018, there are 17,170,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Prospects

Looking ahead, the management anticipates the Group will maintain encouraging growth both in Hong Kong and Mainland China owing to market-specific strategies that have been implemented. It will nonetheless make timely adjustments as needed based on the latest consumption and spending habits to ensure sustainable business development. At the same time, the management will continue to consolidate and invigorate its core operations in Hong Kong and Mainland China in order to provide even better quality food and services.

With regard to the Hong Kong operations specifically, the management will actively seek opportunities for co-operation so as to introduce an even greater number of renowned brands to the city while diversifying the Group's revenue streams and expanding its clientele. As for the Tai Cheong Bakery business, the Group will likewise seek collaborative opportunities, particularly with supermarkets with the purpose of increasing its distribution channels.

In Mainland China, the Group will leverage its logistics centre to support its various operations. With reference to the wholesale business, the Group will employ both online and offline channels to encourage growth, the former will involve the use of relevant e-commerce platforms, while the latter will entail strengthening ties with supermarkets and distributors. Also with e-commerce in mind, the Group will continue to explore various online platforms to attract customers from different parts of the country. With regard to its brick-and-mortar operation, apart from focusing on major metropolitan centres such as Shenzhen and Guangzhou, the Group will also consider other cities in the Greater Bay Area to open new restaurant so as to capture the potential of this dynamic region.

Though the management is encouraged by recent developments, it is fully aware that tremendous effort is necessary to sustain business momentum. It will therefore continue to leverage all of the Group's competitive edges to grasp emerging opportunities and tap new revenue streams so as to deliver stable returns to its shareholders.

OTHER INFORMATION

Dividend

In acknowledging continuous support from our shareholders, the Directors have declared the payment of an interim dividend of HK5.50 cents per ordinary share in respect of the year ending 31 December 2018, payable on 10 October 2018 to shareholders whose names appear on the register of members of the Company on 28 September 2018.

Closure of Register of Members

The register of members of the Company will be closed on Tuesday, 2 October 2018 during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 28 September 2018.

Corporate Governance

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

The Company has compiled with all the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set forth in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018.

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 2018.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2018, 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, 23 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. CHUNG Wai Ping, Mr. WONG Ka Wing, Mr. LEUNG Yiu Chun and Mr. HO Yuen Wah, the non-executive directors are Mr. FONG Siu Kwong and Mr. CHAN Yue Kwong, Michael and the independent non-executive directors are Professor CHAN Chi Fai, Andrew, Mr. MAK Hing Keung, Thomas and Mr. NG Yat Cheung