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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 2021

HIGHLIGHTS

	For the six months ended 30 June		Increase/ (decrease) in
	2021	2020	
	(HK$'000)	*(HK$'000)*	%
Revenue	**1,301,377**	1,147,438	13.4%
Loss for the period	**(19,572)**	(100,163)	(80.5%)
Loss attributable to owners of the parent	**(20,639)**	(101,245)	(79.6%)
	HK cents	*HK cents*	
Basic loss per share	**(2.03)**	(9.96)	(79.6%)
Proposed interim dividend per share	**3.00**	–	100.0%
No. of restaurants and bakery outlets			
at 30 June	**115**	130	(11.5%)
at announcement date	**116**	126	(7.9%)

* *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 2021 together with comparative figures for the corresponding period in 2020. These interim condensed consolidated financial statements for the six months ended 30 June 2021 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 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*5*	**1,301,377**	1,147,438
Cost of sales		**(1,227,823)**	(1,150,913)
Gross profit/(loss)		**73,554**	(3,475)
Other income and gains, net	*5*	**42,174**	47,488
Selling and distribution expenses		**(38,980)**	(42,795)
Administrative expenses		**(83,230)**	(83,664)
Other expenses, net		**47**	(18,971)
Finance costs	*6*	**(16,040)**	(19,308)
Share of profits of associates		**4,183**	1,325
LOSS BEFORE TAX	*7*	**(18,292)**	(119,400)
Income tax (expense)/credit	*8*	**(1,280)**	19,237
LOSS FOR THE PERIOD		**(19,572)**	(100,163)
Attributable to:			
Owners of the parent		**(20,639)**	(101,245)
Non-controlling interests		**1,067**	1,082
		(19,572)	(100,163)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	*10*	**HK(2.03) cents**	HK(9.96) cents
– Diluted	*10*	**HK(2.03) cents**	HK(9.96) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	**(19,572)**	(100,163)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**35,181**	(23,643)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**15,609**	(123,806)
Attributable to:		
Owners of the parent	**13,841**	(124,347)
Non-controlling interests	**1,768**	541
	15,609	(123,806)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021

	Notes	**30 June 2021 (Unaudited) *HK$'000***	31 December 2020 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**874,653**	886,363
Right-of-use assets	*11*	**770,033**	760,951
Investment properties	*11*	**25,100**	25,100
Goodwill		**40,058**	39,556
Other intangible asset		**–**	–
Interests in associates		**9,732**	8,378
Deferred tax assets		**119,979**	112,583
Rental deposits		**79,929**	74,393
Deposits for purchases of items of property, plant and equipment		**95,389**	84,878
Total non-current assets		**2,014,873**	1,992,202
CURRENT ASSETS			
Inventories		**136,289**	163,272
Trade receivables	*12*	**33,916**	26,469
Prepayments, deposits and other receivables		**159,567**	169,510
Tax recoverable		**6,638**	11,826
Pledged deposits		**15,711**	15,052
Restricted cash		**4,483**	4,344
Cash and cash equivalents		**549,553**	561,243
Total current assets		**906,157**	951,716
CURRENT LIABILITIES			
Trade payables	*13*	**83,459**	91,557
Other payables and accruals		**206,226**	212,570
Interest-bearing bank borrowings		**287,333**	272,500
Lease liabilities		**230,054**	215,610
Tax payable		**6,210**	5,024
Total current liabilities		**813,282**	797,261
NET CURRENT ASSETS		**92,875**	154,455
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,107,748**	2,146,657

	Notes	**30 June 2021 (Unaudited)** *HK$'000*	31 December 2020 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**14,099**	14,028
Lease liabilities		**496,575**	518,321
Deferred tax liabilities		**19,469**	19,469
Total non-current liabilities		**530,143**	551,818
Net assets		**1,577,605**	1,594,839
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,635**	101,661
Reserves		**1,452,271**	1,470,576
		1,553,906	1,572,237
Non-controlling interests		**23,699**	22,602
Total equity		**1,577,605**	1,594,839

NOTES

1. CORPORATE INFORMATION

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

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

– restaurant operations and provision of food catering services

– bakery operations

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

– provision of poultry farm operations

2. BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021 (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 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Unaudited Interim Financial Statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*

Other than as explained below regarding the impact of Amendment to HKFRS 16 *COVID-19-Related Rent Concessions beyond 30 June 2021*, the revised HKFRSs are not relevant to the preparation of the Group's Unaudited Interim Financial Statements.

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided that the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK$8,664,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2021 and 2020 and certain non-current asset information as at 30 June 2021 and 31 December 2020, by geographic area.

(a) Revenue from external customers

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**637,099**	703,856
Mainland China	**664,278**	443,582
	1,301,377	1,147,438

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

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

	30 June 2021 (Unaudited) *HK$'000*	31 December 2020 (Audited) *HK$'000*
Hong Kong	**706,646**	683,318
Mainland China	**1,108,319**	1,121,908
	1,814,965	1,805,226

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

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021 (Unaudited) *HK$'000*	2020 (Unaudited) *HK$'000*
Restaurant and bakery operations	**1,156,084**	946,099
Sale of food and other items	**101,407**	147,075
Poultry farm operations	**43,886**	54,264
	1,301,377	1,147,438

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

	Six months ended 30 June	
	2021 (Unaudited) *HK$'000*	2020 (Unaudited) *HK$'000*
Bank interest income	**4,657**	4,304
Government grants	**25,945**	35,234
Gross rental income	**253**	296
Sponsorship income	**1,032**	887
Commission income	**2,330**	925
Management fee income	**44**	366
Gain on disposal of items of property, plant and equipment, net	**1**	291
Gain on termination of leases	**6,949**	3,541
Others	**963**	1,644
	42,174	47,488

6. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**1,603**	2,467
Interest on lease liabilities	**14,437**	16,841
	16,040	19,308

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**454,290**	392,474
Depreciation of items of property, plant and equipment	**83,857**	90,004
Depreciation of right-of-use assets	**119,490**	138,588
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	**355,876**	362,729
Retirement benefit scheme contributions (defined contribution schemes)	**28,067**	18,002
	383,943	380,731
Impairment of trade receivables#	**79**	303
Write-off of items of property, plant and equipment#	**331**	896
Impairment of items of property, plant and equipment#	**963**	3,702
Impairment of right-of-use assets#	**2,680**	14,966
Reversal of unutilised provision#	**(4,100)**	–

Included in "Other expenses, net" 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 2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2020: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**1,479**	4,621
Current – Mainland China	**4,337**	257
Deferred	**(4,536)**	(24,115)
Total tax charge/(credit) for the period	**1,280**	(19,237)

9. DIVIDEND

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final declared and paid – HK3.00 cents (2020: HK3.50 cents) per ordinary share	**30,490**	35,581

On 24 August 2021, the board of directors declared an interim dividend of HK3.00 cents (six months ended 30 June 2020: Nil) per ordinary share, amounting to a total of approximately HK$30,490,000 (six months ended 30 June 2020: Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the unaudited loss for the six months ended 30 June 2021 (loss for the six months ended 30 June 2020) attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,348,000 (period ended 30 June 2020: 1,016,611,000) in issue during the period.

For the six months ended 30 June 2021 and 2020, no adjustment was made to the basic loss per share amount in respect of a dilution as the share options had no dilutive effect on the basic loss per share.

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	**(20,639)**	(101,245)

	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	**1,016,348,000**	1,016,611,000

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

During the six months ended 30 June 2021, additions of property, plant and equipment amounted to HK$45,393,000 (six months ended 30 June 2020: HK$56,182,000).

As at 30 June 2021, buildings and leasehold land included in right-of-use assets with a net carrying amount of HK$30,758,000 (31 December 2020: HK$31,316,000) and HK$48,071,000 (31 December 2020: HK$48,466,000), respectively, were pledged to secure banking facilities granted to the Group.

As at 30 June 2021, the Group's investment properties with a total carrying amount of HK$20,500,000 (31 December 2020: HK$20,500,000) were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables	**37,682**	30,156
Impairment	**(3,766)**	(3,687)
	33,916	26,469

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

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**27,323**	20,157
1 to 3 months	**6,135**	5,204
Over 3 months	**458**	1,108
	33,916	26,469

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 2021 (Unaudited)	31 December 2020 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**70,976**	79,743
1 to 2 months	**4,811**	3,399
2 to 3 months	**875**	2,216
Over 3 months	**6,797**	6,199
	83,459	91,557

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 2021 (the "**period**"). During the period, both Hong Kong and Mainland China continued to suffer from the COVID-19 pandemic, with the food and beverage (F&B) industry being among the sectors hardest hit. In Hong Kong, social distancing measures and prohibition on group gatherings imposed by the government severely affected customer traffic at many local restaurants. Across the border, the holding of large group gatherings was prohibited temporarily in January due to an unexpected outbreak, though the situation was contained quickly and restrictions were gradually relaxed in subsequent months. As a result, the Group's Mainland China operation achieved a turnaround, with turnover up appreciably and a return to profitability. Moreover, by continuing to control costs and enhancing operations, as well as further implementing its multi-brand strategy, the Group was able to overcome challenges and adapt to constant changes in the operating environment. The Group's metrics consequently improved significantly over the corresponding period last year, a clear reflection of its greater operational resilience.

Financial Results

The Group's total revenue amounted to HK$1,301.4 million (2020: HK$1,147.4 million) as at 30 June 2021, which represented a year-on-year increase of 13.4%. Gross profit margin (defined as total revenue less cost of inventories sold divided by total revenue) hovered at 65.1% (2020: 65.8%). Loss attributable to owners of the parent was reduced considerably by 79.6% year-on-year to HK$20.6 million (2020: loss of HK$101.2 million).

The Board has proposed an interim dividend of HK3.00 cents per share for the six months ended 30 June 2021.

Hong Kong Operations

During the period, the Hong Kong operations generated revenue of HK$637.1 million (2020: HK$703.9 million), down 9.5% from the corresponding period last year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to HK$75.0 million (2020: HK$103.3 million), with loss attributable to owners of the parent amounting to HK$49.5 million (2020: loss of HK$41.3 million).

Both the economic and business environment have continued to be highly challenging in Hong Kong which has directly impaired the performance of the Group's local operations. Its operations were further affected by restrictions on operating hours, which have been severely curtailed as the Group's restaurants fell under the Types A-D Mode of Operation under the Prevention and Control of Disease Regulation, hence bigger group family gatherings and late night dining were restricted. Performance was further affected by network optimisation, with certain restaurants closed while others were either under renovation or newly opened. New openings have included its chain of "Chung's House (鍾菜館)" premium brand restaurants, which target upscale patrons with greater disposable income. Five "Chung's House" restaurants are now in operation, located at Cyberport, Central, Stanley, Causeway Bay and Fo Tan. The "Chung's House" brand has received overwhelmingly favourable response and has generated profit for the Group. Consequently, the management targets to open more "Chung's House" restaurants in the second half of 2021.

Overall, the Group has further enhanced its sales channels through strategic partnerships with a number of food delivery platforms, including Deliveroo, Foodpanda and The Gulu, to tap the demand for food delivery services. Conversely, to attract restaurant-goers, the Group has continued to employ its proven marketing strategies which include such favourites as the "One-dollar chicken", "One-dollar pigeon" and "Half-price dim-sum" during the morning and tea time. Moreover, in response to the positive reaction of patrons, the Group has introduced the "Tea trolley (茶車)" to all of its restaurants. This allows patrons to make their own tea when desired, a practice that perfectly complements the Chinese dining tradition. Convenience is also enhanced for restaurant-goers by way of a mobile ordering platform that is available at all restaurants, which helps promote higher table turnover rates.

With regard to enhancing operational efficiency and controlling costs, the Group has taken action both internally and externally with relevant parties to effect positive change. This has included negotiating with landlords, particularly those managing shopping malls that belong to the government sector, for rent reduction and better rental concessions. Internally, the Group has sought to manage food costs by strategic purchasing and better menu planning. Moreover, greater flexibility and efficiency in manpower allocation has been achieved by means of streamlining operations, thus also resulting in lower labour costs.

As at 30 June 2021, the Group had 43 (2020: 49) restaurants in operation across Hong Kong. Although certain restaurants were closed during the first half of 2021, the Group plans to open new restaurants in the city in the second half of the year. Tao Heung will continue to position itself as a Chinese culinary group with a diverse brand portfolio that is able to satisfy demand from different customer segments.

For the Tai Cheong bakery business, the Group operated a total of 10 bakeries in Hong Kong (2020: 15) as at 30 June 2021. The plan for the bakery business moving forward is to introduce greater product variety and more baked-at-store products, in order to attract a wider range of customers who desire high-quality baked goods. Outside of Hong Kong, a total of 11 Tai Cheong bakeries can be found in Singapore and Malaysia (2020: 5). In view of the promising performance of these bakeries, the Group plans to work closely with its partners to further invest and open more shops in the second half of this year.

As 2021 marks the 30th anniversary of Tao Heung, it has sought to celebrate this milestone in a meaningful manner. Consequently, it sponsored the Barefoot Walk Charity (赤腳慈行) in June 2021 – a charitable event established by Hong Kong actor Mr. Milkson Fong (方紹聰), which involves trekking 180 km to help support underprivileged children and children with intellectual disabilities. The cause fully aligns with Tao Heung's corporate culture and commitment to giving back to the society.

Mainland China Operations

During the period, the Mainland China operations contributed HK$664.3 million (2020: HK$443.6 million) in revenue to the Group, and impressive increase of 49.8% over the same period last year. The segment achieved a turnaround with EBITDA reaching HK$126.1 million (2020: HK$25.2 million), with profit attributable to owners of the parent amounting to HK$28.9 million (2020: loss of HK$59.9 million).

Mainland China's performance improved significantly for the first half of 2021. While the operations in Guangdong Province were severely affected by social distancing restrictions in January, the effective and quick control of the COVID-19 virus in subsequent months resulted in encouraging overall results by the close of the period. Furthermore, the takeaway and delivery business continued to perform robustly owing to the tapping of such popular platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼) by the Group, which helped to further boost profitability of the Mainland China operations.

As at 30 June 2021, the Group had a total of 47 restaurants (2020: 45) in Mainland China; it also operated 15 bakeries (2020: 21) under the Bakerz 180 brand name. In the second half year, the Group plans to open five new restaurants in major metropolitan centres so as to capitalise on recovering consumer sentiment as well as seize opportunities for supporting business growth. Similarly, the Group targets opening two Bakerz 180 bakeries in Guangdong Province in the second half of 2021.

Peripheral Businesses

The Group's chilled and packaged food segment performed in a stable manner, generating HK$101.4 million in revenue during the review period (2020: HK$147.1 million). The Group has continued partnering with supermarket and convenience stores locally and overseas, including those operating in South East Asia and China, to support this segment. The Group believes that the business segment possesses good potential for contributing still greater revenue in the future, supported by a strong line up of chilled and packaged food products. The Group will therefore direct more resources in developing a larger variety of products for the segment, which would also go towards capitalising on the work-from-home practice that has become the new normal since the COVID-19 outbreak.

Financial resources and liquidity

As at 30 June 2021, the total assets decreased by 0.8% to approximately HK$2,921.0 million (31 December 2020: approximately HK$2,943.9 million) while the total equity decreased by 1.1% to approximately HK$1,577.6 million (31 December 2020: approximately HK$1,594.8 million).

As at 30 June 2021, the Group had cash and cash equivalents amounted to approximately HK$549.6 million. After deducting the total interest-bearing bank borrowings of HK$287.3 million, the Group had a net cash surplus position of approximately HK$262.3 million.

As at 30 June 2021, the Group's total interest-bearing bank borrowings were increased to approximately HK$287.3 million (31 December 2020: approximately HK$272.5 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings divided by the total equity attributable to the owners of the Company) was increased to 18.5% (31 December 2020: 17.3%).

Capital expenditure

Capital expenditure for the six months ended 30 June 2021 amounted to approximately HK$63.9 million (period ended 30 June 2020: approximately HK$56.2 million) and the capital commitments as at 30 June 2021 amounted to approximately HK$8.1 million (31 December 2020: approximately HK$17.6 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 2021, the Group pledged its bank deposits of approximately HK$15.7 million, right-of-use assets of approximately HK$48.1 million and buildings of approximately HK$30.8 million and investment properties of approximately HK$20.5 million to secure the banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2021, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$24.3 million (31 December 2020: approximately HK$24.8 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2021 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.

Principal risks and uncertainties

The Group's business and operation may be seriously affected by the outbreak of the COVID-19 pandemic or other public health incident, which may cause lockdown, travel restrictions and suspension of work in Mainland China, Hong Kong or elsewhere. These risks and uncertainties may materially adversely affect the Group's business, financial condition or results of operation.

Human resources

As at 30 June 2021, the Group had 5,512 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 2021, there are 9,440,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Prospects

Even though the COVID-19 pandemic had a major impact on the F&B industry in Hong Kong and Mainland China, improvement in vaccination rates in 2021 have lessened such impact. Moreover, consumer sentiment has been improving as well, and has undoubtedly been boosted further in Hong Kong with the rollout of the Consumption Voucher Scheme in 2021, which enables each local resident to receive electronic consumption vouchers worth $5,000 in total. The management therefore remains cautiously optimistic about the Group's outlook in the second half year.

To capture opportunities arising from the aforementioned developments, the Group will introduce more promotions and develop different marketing campaigns to bolster sales. This will include promotions to celebrate Tao Heung's 30th anniversary, which will involve elements relating to the number 30, such as RMB30 and RMB3 per dish offers at the Group's Mainland restaurants. At the same time, it will seek to enhance profitability by carefully controlling costs, which, in the case of rent, will involve negotiating with landlords for more favourable rental concessions once certain restaurants are due for relevant discussions. Also recognising the importance of a robust restaurant network, the Group will continue to expand its presence in Hong Kong and Mainland China, which, in the case of the former, will involve the opening of more "Chung's House" restaurants. As for the latter, in view of good turnover and Tao Heung's strong brand equity, the Group plans to open five new restaurants in the second half year, with two in Changsha, one in Shanghai, one in Southwest district and one in Guangdong Province.

With its strong reputation, extensive network and ample resources, Tao Heung will continue enhancing its competitiveness and promoting its brand image in order to deliver long-term value to shareholders.

OTHER INFORMATION

Dividend

In acknowledging continuous support from our shareholders, the Directors have declared the payment of an interim dividend of HK3.00 cents per ordinary share in respect of the year ending 31 December 2021, payable on 15 October 2021 to shareholders whose names appear on the register of members of the Company on 30 September 2021.

Closure of Register of Members

The register of members of the Company will be closed on Monday, 4 October 2021 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 Thursday, 30 September 2021.

Corporate Governance

During the six months ended 30 June 2021, the Company has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and complied with all applicable code provisions under the Code, save and except for the deviation from the code provision A.2.1 of the Code. Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("**CEO**") should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision A.2.1, i.e., the roles of the Chairman and CEO have not been separated. Considering that Mr. Chung Wai Ping has been operating and managing the Group since its incorporation, the Board believes that it is in the best interest of the Group to have Mr. Chung Wai Ping taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from code provision A.2.1 is appropriate in such circumstance.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors have compiled with the required standards as set out in the Code throughout the six months ended 30 June 2021.

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

Audit Committee Review and Review of Interim Results

The Company established the audit committee (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 issues of the Group. Currently, Mr. Mak Hing Keung, Thomas and Professor Chan Chi Fai, Andrew, all being Independent Non-executive Directors and Mr. Chan Yue Kwong, Michael, a Non-executive Director, are members of the Audit Committee with Mr. Mak Hing Keung, Thomas, being the chairman.

The unaudited condensed consolidated interim financial statements of the Group's for the six months ended 30 June 2021 have not been audited, but have reviewed by the Audit Committee, which is of the view that the applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

Publication of interim results

The electronic version of this announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.taoheung.com.hk).

Appreciation

The Board would like to thank the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners and associates, bankers and auditors for their support to the Group throughout the period.

By order of the Board
Tao Heung Holdings Limited
Chung Wai Ping
Chairman

Hong Kong, 24 August 2021

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