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 2022

HIGHLIGHTS

	For the six months ended 30 June		Increase/ (decrease) in
	2022	2021	
	(HK$'000)	*(HK$'000)*	%
Revenue	**1,058,425**	1,301,377	(18.7%)
Loss for the period	**(98,283)**	(19,572)	402.2%
Loss attributable to owners of the parent	**(101,392)**	(20,639)	391.3%
	HK cents	*HK cents*	
Basic loss per share	**(10.00)**	(2.03)	392.6%
Proposed interim dividend per share	**3.00**	3.00	0.0%
No. of restaurants and bakery outlets			
at 30 June	**125**	126	(0.8%)
at announcement date	**125**	127	(1.6%)

* *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 2022 together with comparative figures for the corresponding period in 2021. These interim condensed consolidated financial statements for the six months ended 30 June 2022 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 2022

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*5*	**1,058,425**	1,301,377
Cost of sales		**(1,101,449)**	(1,227,823)
Gross profit/(loss)		**(43,024)**	73,554
Other income and gains, net	*5*	**83,007**	42,174
Selling and distribution expenses		**(38,549)**	(38,980)
Administrative expenses		**(86,418)**	(83,230)
Other expenses, net		**(19,225)**	47
Finance costs	*6*	**(12,639)**	(16,040)
Share of profits of associates		**1,605**	4,183
LOSS BEFORE TAX	*7*	**(115,243)**	(18,292)
Income tax credit/(expense)	*8*	**16,960**	(1,280)
LOSS FOR THE PERIOD		**(98,283)**	(19,572)
Attributable to:			
Owners of the parent		**(101,392)**	(20,639)
Non-controlling interests		**3,109**	1,067
		(98,283)	(19,572)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic	*10*	**HK(10.00) cents**	HK(2.03) cents
– Diluted	*10*	**HK(10.00) cents**	HK(2.03) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	**(98,283)**	(19,572)
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	**(42,011)**	35,181
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(140,294)**	15,609
Attributable to:		
Owners of the parent	**(142,558)**	13,841
Non-controlling interests	**2,264**	1,768
	(140,294)	15,609

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**867,105**	924,202
Right-of-use assets	*11*	**674,384**	689,441
Investment properties	*11*	**25,100**	25,100
Goodwill		**39,492**	40,153
Investments in associates		**11,405**	13,947
Deferred tax assets		**141,787**	123,166
Rental deposits		**81,076**	72,497
Deposits for purchases of items of property, plant and equipment		**26,495**	23,883
Other investment		**1,000**	–
Total non-current assets		**1,867,844**	1,912,389
CURRENT ASSETS			
Inventories		**122,730**	151,450
Trade receivables	*12*	**46,046**	57,437
Prepayments, deposits and other receivables		**150,674**	153,284
Tax recoverable		**1,420**	2,315
Pledged deposits		**15,509**	15,989
Cash and cash equivalents		**413,969**	457,925
Total current assets		**750,348**	838,400
CURRENT LIABILITIES			
Trade payables	*13*	**101,970**	124,154
Other payables and accruals		**248,932**	241,533
Interest-bearing bank borrowings		**231,500**	161,667
Lease liabilities		**213,089**	200,870
Tax payable		**3,591**	4,056
Total current liabilities		**799,082**	732,280
NET CURRENT ASSETS/(LIABILITIES)		**(48,734)**	106,120
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,819,110**	2,018,509

	Notes	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals		**11,858**	13,069
Lease liabilities		**411,863**	439,327
Deferred tax liabilities		**19,902**	19,902
Total non-current liabilities		**443,623**	472,298
Net assets		**1,375,487**	1,546,211
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**101,435**	101,635
Reserves		**1,254,203**	1,426,991
		1,355,638	1,528,626
Non-controlling interests		**19,849**	17,585
Total equity		**1,375,487**	1,546,211

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

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 (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 2021.

2.2 BASIS OF PRESENTATION

As at 30 June 2022, the Group had net current liabilities of HK$48,734,000 which included the current portion of lease liabilities of HK$213,089,000. The directors believe that the Group has sufficient cash flows from operations and available banking facilities to meet its liabilities as and when they fall due. Therefore, the Unaudited Interim Financial Statements are prepared on a going concern basis.

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 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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 2022 and 2021 and certain non-current asset information as at 30 June 2022 and 31 December 2021, by geographic area.

(a) Revenue from external customers

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Hong Kong	**505,647**	637,099
Mainland China	**552,778**	664,278
	1,058,425	1,301,377

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

(b) Non-current assets

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Hong Kong	**693,022**	626,656
Mainland China	**950,959**	1,090,070
	1,643,981	1,716,726

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	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Restaurant and bakery operations	**879,378**	1,156,084
Sale of food and other items	**112,380**	101,407
Poultry farm operations	**66,667**	43,886
	1,058,425	1,301,377

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**3,142**	4,657
Government grants	**64,098**	25,945
Gross rental income	**239**	253
Sponsorship income	**700**	1,032
Commission income	**1,841**	2,330
Management fee income	**5**	44
Gain on disposal of items of property, plant and equipment, net	**–**	1
Gain on termination of leases	**7,212**	6,949
Others	**5,770**	963
	83,007	42,174

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**1,292**	1,603
Interest on lease liabilities	**11,347**	14,437
	12,639	16,040

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**401,075**	454,290
Depreciation of items of property, plant and equipment	**80,991**	83,857
Depreciation of right-of-use assets	**112,866**	119,490
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	**328,400**	355,876
Retirement benefit scheme contributions (defined contribution schemes)	**28,289**	28,067
	356,689	383,943
Impairment of trade receivables#	**1,828**	79
Write-off of items of property, plant and equipment#	**1,300**	331
Impairment of items of property, plant and equipment#	**7,397**	963
Impairment of right-of-use assets#	**8,700**	2,680
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 2021: 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 (2021: 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	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**(10)**	1,479
Current – Mainland China	**173**	4,337
Deferred	**(17,123)**	(4,536)
Total tax charge/(credit) for the period	**(16,960)**	1,280

9. DIVIDEND

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends recognised as distribution during the reporting period:		
2020 final dividend – HK3.00 cents per ordinary share	**–**	30,490
2021 final dividend – HK3.00 cents per ordinary share	**30,430**	–
	30,430	30,490
Dividend declared after the end of the reporting period:		
Interim dividend – HK3.00 cents (six months ended 30 June 2021: HK3.00 cents) per ordinary share	**30,430**	30,490

On 23 August 2022, the board of directors declared an interim dividend of HK3.00 cents (six months ended 30 June 2021: HK3.00 cents) per ordinary share, amounting to a total of approximately HK$30,430,000 (six months ended 30 June 2021: approximately HK$30,490,000).

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 2022 attributable to ordinary equity holders of the parent of HK$101,392,000 (six months ended 30 June 2021: 20,639,000), and the weighted average number of ordinary shares of 1,014,348,000 (six months ended 30 June 2021: 1,016,348,000) in issue during the period.

For the six months ended 30 June 2022 and 2021, 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	
	2022	2021
	(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	**(101,392)**	(20,639)

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	**1,014,348,000**	1,016,348,000

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

During the six months ended 30 June 2022, additions of property, plant and equipment amounted to HK$50,384,000 (six months ended 30 June 2021: HK$45,393,000).

As at 30 June 2022, buildings and leasehold land included in right-of-use assets with a net carrying amount of HK$29,600,000 (31 December 2021: HK$30,200,000) and HK$47,281,000 (31 December 2021: HK$47,676,000), respectively, were pledged to secure banking facilities granted to the Group.

As at 30 June 2022, the Group's investment properties with a total carrying amount of HK$20,500,000 (31 December 2021: HK$20,500,000) were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables	**51,689**	61,252
Impairment	**(5,643)**	(3,815)
	46,046	57,437

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 2022 (Unaudited) *HK$'000*	31 December 2021 (Audited) *HK$'000*
Within 1 month	**24,921**	42,466
1 to 3 months	**20,632**	14,648
Over 3 months	**493**	323
	46,046	57,437

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 2022 (Unaudited) *HK$'000*	31 December 2021 (Audited) *HK$'000*
Within 1 month	**86,574**	111,686
1 to 2 months	**8,265**	6,309
2 to 3 months	**502**	738
Over 3 months	**6,629**	5,421
	101,970	124,154

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 2022 (the 'period'). During the Period, the COVID-19 pandemic continued to impact on the economy of Mainland China and Hong Kong. Since March 2022, travel restrictions and lockdowns imposed in major cities in Mainland China due to outbreaks of more contagious COVID-19 variants. Some of our restaurants located in Shanghai & Guangdong province were temporarily closed and/or suspended dine-in services for the period from March to June 2022. In Hong Kong, the city faced severe headwinds resulting from the fifth wave of the pandemic at the start of 2022, which led the HKSAR government to impose restrictions on evening dining from late-January to the middle of April. The aforementioned developments invariably affected the Group, which included the suspension of Hong Kong operations for 1,363 shop-days (totalling 41 shops), and of Mainland China operations for 1,049 shop-days (totalling 49 shops). In face of multiple challenge, our management team has devised various strategies to strengthen our competitive advantages. Such strategies included revamping the brands of restaurants, advancing digitisation and automation, introducing the new ingredients and menus as well as fully capitalising on various distribution channels. Furthermore, the Group has taken measures to control rental rates, labour cost and other operating costs.

The Group has applied "2022 Employment Support Scheme" launched by HKSAR government and the wage subsidies were fully used on paying wages to employees. The Group has also received subsidy of Fifth and Sixth round of Anti-epidemic Fund – Catering Business Subsidy Scheme, in which all subsidies were directly used in the ordinary course of business. In addition, the Group has benefited from Temporary Reduction and Exemption of Social Insurance Premiums (階段性減免企業社會保險費) from the Chinese government. The Group has been actively managing its working capital to ensure the Group remains in a healthy cash position.

Financial Results

As at the period, the Group's total revenue amounted to approximately HK$1,058.4 million (2021: approximately HK$1,301.4 million), which represented a year-on-year decline of 18.7%. Gross profit margin (defined as total revenue less cost of inventories sold divided by total revenue) dipped modestly to 62.1% (2021: 65.1%). Loss attributable to owners of the parent amounted to approximately HK$101.4 million (2021: approximately HK$20.6 million).

The Board has proposed an interim dividend of HK3.00 cents per share for the six months ended 30 June 2022.

Hong Kong Operations

The Hong Kong operations contributed approximately HK$505.6 million (2021: approximately HK$637.1 million) to the Group during the period, which was 20.6% lower than the corresponding period of last year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to approximately HK$60.2 million (2021: approximately HK$75.0 million) – down 19.7% year-on-year, with loss attributable to owners of the parent narrowing to approximately HK$42.8 million (2021: approximately HK$49.5 million).

The fifth wave of the COVID-19 pandemic in Hong Kong severely impacted the Group's business, with evening dining banned from late January to the middle of April. While day-time operations continued, strict dine-in restrictions were imposed between February and April, including limiting the number of patrons per table to just two persons and banning banquets. Furthermore, all staff were required to be vaccinated, and undergo regular PCR/RAT testing as part of an industry-wide health regime. All patrons were also required to use the "Leave Home Safe" app, provide vaccination QR code, undergo temperature check, etc. among other precautions, thus calling for the bolstering of relevant resources. Hence, despite government subsidies, the operating environment continued to be challenging.

In the face of multiple challenges, Tao Heung has maintained vigilance; examining ways to best adapt to market dynamics. Given the more favourable prospects that the upscale F&B market affords, it has consequently placed greater resources towards tapping this segment and its affluent customers. This has included opening a new "Chung's House (鍾菜館)" restaurant in Wan Chai during the period, thus raising the total number of such branded restaurants to five, with the others located in Causeway Bay, Cyberport, Fo Tan and Stanley. Given the favourable response from customers, the Group plans to open more "Chung's House" restaurants going forward, and will feature more private rooms, spacious areas and high ceilings, which are integral to the "Chung's House" ambience. Another brand of the Group – the "Tao Heung Tea House (稻香茶居)" was also revamped during the period, providing yum-cha loving customers an authentic environment to enjoy fine Chinese teas and dim-sums. Furthermore, in the wake of the COVID-19 pandemic, the Group will introduce more restaurants featuring high ceilings and spacious settings so as to promote peace of mind among customers.

Overall, Tao Heung has continued to adhere to the "Three-High Quality Standard (三優)" across all of its operations, which consists of "high-quality food production (優質出品)", "high-quality service (優質服務)" and "high-quality environment (優質環境)". Consequently, the management has sought advancement through such means as delivering higher quality tea via its popular "Tea trolley (茶車)", which offers customers the personal enjoyment of brewing their own tea. As part of its high-quality service, the Group also offered signature and seasonal dishes as well as popular longstanding promotions such as "One-dollar chicken", "One-dollar pigeon", lobsters from Australia and Matsuba Crab from Russia and Japan, which helped to boost customer traffic during dinner hours. In addition, specific promotions for late night supper, i.e. after 8:30 pm, were introduced, including "Half-price hot-pot" with customised menus and a wide range of special soup base options, as part of the Group's efforts to revive its evening business after the lifting of restrictions imposed in the latter part of the first half year.

Tao Heung has also directed its energies towards advancing digitisation and customer relationship management (CRM) during the period. This has involved the uprating of the mobile ordering platform and trial operation of robot waiters at one of the Group's restaurants. The robot is capable of navigating autonomously in specific areas of the restaurant with designated voice prompt, hence the ability to improve service efficiency and help relieve the labour shortage problem. Moreover, it is expected to further enhance the "tech vibe" of the restaurant, which in turn increase customer flow. Given its encouraging performance, Tao Heung plans on introducing more robots in the second half year. With regard to CRM, the Group will further develop the membership system so that customers are kept abreast of the latest promotions, which in turn increases stickiness of both online and offline visits and fosters customer loyalty.

Still another important area that the Group has sought progress is promoting internal efficiency. With rising food costs, driven by global logistic challenges and high transportation expenses, Tao Heung has continued to procure ingredients from relatively lower cost locations. It has also adjusted menus to fully capitalise on the price movement of ingredients, as well as launched new value-added food items that satisfy the tastes of restaurant-goers. Separately, the Group has established a strategic partnership with a company that specialises in creating plant-based meat (植物肉) especially for Chinese cuisine. The taste, texture and fat content of the plant-based meat produced by the company differentiates it from its counterparts, providing the Group with an added and cost effective option for introducing Chinese dishes, including dim sum, for customers to enjoy while minimising impact on the environment.

The Group is also mindful of the importance of staff and their valuable role in its future development. It has consequently continued offering an enhanced "Shop Manager Trainee Programme" so that employees have greater exposure to different roles and management skills within the restaurant environment, which includes capitalising on their strengths and abilities, helping them to grow within the Group. The programme also helps in building a talent pool for the future development of the Group.

As at the end of the period, the Group had 44 (2021: 43) restaurants in operation in Hong Kong, with two new restaurant openings planned in the second half year. The management will seek to identified prime locations for the restaurants, which, with reasonable rental rates, would go towards meeting the Group's profitability targets.

With respect to the Tai Cheong bakery business, the Group operated a total of 9 bakeries in Hong Kong (2021: 10) as at 30 June 2022. The performance of the operation has remained stable, supported in part by government subsidies. Revamping of the business has continued during the period, which included relocating certain sales points and enhancing the operation model. Outside Hong Kong, there are a total of 12 (2021: 11) Tai Cheong bakeries that can be found in Singapore. The brand has continued to perform well, thus encouraging the Group to explore partnerships and opportunities for co-operation, so as to grow the Tai Cheong footprint in Asia.

Mainland China Operations

As at 30 June 2022, the Mainland China operations generated approximately HK$552.8 million (2021: approximately HK$664.3 million) in revenue, which represented a year-on-year decline of 16.8%. EBITDA reached approximately HK$31.0 million (2021: approximately HK$126.1 million) with loss attributable to owners of the parent totalling approximately HK$58.6 million (2021: profit of approximately HK$28.9 million).

Although the Mainland China business achieved a turnaround in 2021 owing to effective COVID-19 measures in place, the first half year of 2022 was a much more difficult period by comparison. With outbreaks of more contagious COVID-19 variants in major Chinese cities in the second quarter, lockdowns were imposed, including periods of no in-restaurant dining. Still, takeaways, deliveries, and sales of chilled and packaged food items, both online and via the Group's integrated complex supermarkets, continued – benefits that Tao Heung was able to reap due to the business diversification strategies that it implemented some years ago. The Group also leveraged takeaway and delivery platforms such as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼), all of which contributed favourably to the Mainland China business. To specifically spur online sales of chilled and packaged food items, the

Group continued to employ TikTok (抖音) and various KOL platforms. As the response has been promising, the Group will dedicate greater effort in exploring more channels of similar nature to expand this business segment.

With the lifting of lockdown measures in several key markets in the latter part of the period, Tao Heung has witnessed a gradual recovery in the banquet business. The Group's Mainland China operation has been consolidating its strengths during the pandemic with the aim of grasping the post-COVID opportunities in the market, including pushing forward the 5S management system ('sort', 'set in order', 'shine', 'standardise' and 'sustain') and the four quality production requirements ('temperature', 'speed', 'taste' and 'attitude'). Through concerted efforts between the management and employees, the Group hopes to give customers the best dining environment and experience they can expect, and believe it is fully prepared to capitalise on a full market recovery.

As at 30 June 2022, the Group had a total of 47 restaurants in Mainland China (2021: 47). With the operating environment remaining uncertain, Tao Heung will be highly cautious about the opening of new stores in the country in the second half year. In the meantime, it will place greater energy and resources on tapping the banquet business. Correspondingly, the Group will expedite the renovation and upgrade of certain restaurants, so as to give customers truly premium and memorable dining experiences.

Apart from running a sustainable Chinese cuisine business, giving back to society has been an integral part of Tao Heung's corporate culture. This is reflected by the establishment of the Dongguan Tao Heung Chinese Cuisine Culinary Vocational Training Institute ("**Training Institute**") in Mainland China in 2021. The objective of the Training Institute is to promote Chinese culinary traditions among new entrants to the industry through training, accreditation and work experience. During the period, the Training Institute has already trained over 380 students, as well as co-operated with local education institutes, offering training sessions to students of relevant tertiary courses. The Training Institute has therefore become a training base for Chinese cuisine talent in Greater Bay Area.

Peripheral Businesses

The chilled and packaged food segment continued to serve as foundation of the peripheral business, contributing approximately HK$112.4 million (2021: approximately HK$101.4 million) in revenue during the period, which was 10.8% higher than the corresponding period of last year. The Group has maintained partnerships with local fast-food restaurants, supermarkets, convenience stores and F&B players that have Western restaurants in Hong Kong. The chilled and packaged food segment will continue to be among the major priorities of the Group going forward.

Financial resources and liquidity

As at 30 June 2022, the total assets decreased by 4.8% to approximately HK$2,618.2 million (31 December 2021: approximately HK$2,750.8 million) while the total equity decreased by 11.0% to approximately HK$1,375.5 million (31 December 2021: approximately HK$1,546.2 million).

As at 30 June 2022, the Group's total current assets and current liabilities were approximately HK$750.3 million (31 December 2021: approximately HK$838.4 million) and approximately HK$799.1 million (31 December 2021: approximately HK$732.3 million), respectively, while the current ratio calculated by dividing the total current assets over the total current liabilities was approximately 0.94 (31 December 2021: approximately 1.14).

Funding for the Group's operation was sourced mainly from internally generated cash flows, with flexibility through the use of bank loans.

As at 30 June 2022, the Group had cash and cash equivalents amounted to approximately HK$414.0 million (31 December 2021: approximately HK$457.9 million). After deducting the total interest-bearing bank borrowings of approximately HK$231.5 million (31 December 2021: approximately HK$161.7 million), the Group had a net cash surplus position of approximately HK$182.5 million (31 December 2021: approximately HK$296.2 million).

As at 30 June 2022, the Group's total interest-bearing bank borrowings were increased to approximately HK$231.5 million (31 December 2021: approximately HK$161.7 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings divided by the total equity attributable to the owners of the Company) was increased to 17.1% (31 December 2021: 10.6%).

The Group maintains prudent funding and treasury policies towards its overall business operations and continues to apply measure to control costs, enhance cash flow and operational efficiency.

Capital expenditure

Capital expenditure for the six months ended 30 June 2022 amounted to approximately HK$53.9 million (period ended 30 June 2021: approximately HK$63.9 million) and the capital commitments as at 30 June 2022 amounted to approximately HK$8.3 million (31 December 2021: approximately HK$11.8 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 2022, the Group pledged its bank deposits of approximately HK$15.5 million (31 December 2021: approximately HK$16.0 million), right-of-use assets of approximately HK$47.2 million (31 December 2021: approximately HK$47.7 million) and buildings of approximately HK$29.6 million (31 December 2021: approximately HK$30.2 million) and investment properties of approximately HK$20.5 million (31 December 2021: approximately HK$20.5 million) to secure the banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2022, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$25.1 million (31 December 2021: approximately HK$23.7 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2022 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 2022, the Group had 5,430 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 2022, there are 8,530,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

PROSPECTS

Uncertainties abound in the immediate future, with new COVID-19 variants, further lockdowns, inflation and global logistics challenges being among the potential factors that will impact Hong Kong and Mainland China, and invariably the Group's top-line performance. Furthermore, rising costs will continue to be a concern for all F&B players in the region, which includes transportation and food costs, due in part to ongoing supply chain issues, and high labour costs, though rental rates have begun to stabilise. The management will therefore be highly cautious as it steers Tao Heung through choppy waters in the upcoming period.

With respect to Hong Kong, the management continues to believe that there is healthy demand for quality restaurants in the premium segment. The Group will therefore seek to establish new locations across the city, all the while taking a cautious yet optimistic line of action. In regard to Mainland China, the management will err on the side of caution and adopt a wait-and-see approach for the time being.

Internally, Tao Heung will seek to further reduce costs by enhancing operational efficiency via digitalisation and automation. It will therefore place still greater effort on advancing CRM, in order to reinforce ties with customers and build trust. In Mainland China, apart from TikTok, the Group plans to conduct more promotions through "Xiaohongshu (小紅書)" and "Bilibili (嗶哩嗶哩)" to drive chilled and packaged food sales in the country. Efforts will also be placed on developing of packaged foods for better penetrating the young couple and family segments. Moreover, Tao Heung will strive to increase product variety, with the aim of providing greater convenience and quality dining for young families. As aforementioned, the Group will continue to adhere to the "Three-High Quality Standard (三優)", comprising "high-quality food production (優質出品)", "high-quality service (優質服務)" and "high-quality environment (優質環境)" so that it will be well ready to grasp business opportunities once normality returns to the Hong Kong and Mainland China markets. The Group's ultimate goal will be to strengthen its position as a leading Chinese culinary group with a diverse brand portfolio that is able to satisfy demand from different customer segments, and to create long term value for all 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 2022, payable on Wednesday, 19 October 2022 to shareholders whose names appear on the register of members of the Company on Friday, 7 October 2022.

Closure of Register of Members

The register of members of the Company will be closed on Monday, 10 October 2022 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, 7 October 2022.

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 accountability, sound internal control, appropriate risk assessment procedures and transparency to all the shareholders.

During the six months ended 30 June 2022, 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 2022.

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2022, 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 2022 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
Chung Wai Ping
Chairman and Chief Executive Officer

Hong Kong, 23 August 2022

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.