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 2024

HIGHLIGHTS

	For the six months ended 30 June		**Increase/ (decrease) in**
	2024	2023	**%**
	(HK$'000)	*(HK$'000)*	
Revenue	**1,285,575**	1,504,553	(14.6%)
Profit for the period	**9,430**	36,117	(73.9%)
Profit attributable to equity holders of the Company	**4,022**	33,400	(88.0%)
	HK cents	*HK cents*	
Basic profit per share	**0.40**	3.29	(88.0%)
Proposed interim dividend per share	**–**	3.00	(100.0%)
No. of restaurants and bakery outlets			
at 30 June	**90**	112	(19.6%)
at announcement date	**89**	112	(20.5%)

* *For identification purposes 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 2024 together with comparative figures for the corresponding period in 2023. These interim condensed consolidated financial statements for the six months ended 30 June 2024 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 2024

		Six months ended 30 June	
		2024	2023
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*5*	**1,285,575**	1,504,553
Cost of sales		**(1,190,547)**	(1,322,696)
Gross profit		**95,028**	181,857
Other income and gains, net	*5*	**34,048**	22,838
Selling and distribution expenses		**(28,014)**	(39,009)
Administrative expenses		**(73,814)**	(79,962)
Other expenses, net		**(10,112)**	(22,907)
Finance costs	*6*	**(9,886)**	(12,186)
Share of profits and losses of associates		**(198)**	1,006
PROFIT BEFORE TAX	*7*	**7,052**	51,637
Income tax credit/(expense)	*8*	**2,378**	(15,520)
PROFIT FOR THE PERIOD		**9,430**	36,117
Attributable to:			
Equity holders of the Company		**4,022**	33,400
Non-controlling interests		**5,408**	2,717
		9,430	36,117
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic	*10*	**HK0.40 cents**	HK3.29 cents
– Diluted	*10*	**HK0.40 cents**	HK3.29 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**9,430**	36,117
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(8,245)**	(13,866)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,185**	22,251
Attributable to:		
Equity holders of the Company	**(3,864)**	19,859
Non-controlling interests	**5,049**	2,392
	1,185	22,251

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2024

	Notes	30 June 2024 (Unaudited) HK$'000	31 December 2023 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**668,304**	732,114
Right-of-use assets	11	**491,211**	538,194
Investment properties	11	**25,100**	25,100
Goodwill		**36,340**	36,557
Other intangible asset		**–**	–
Investments in associates		**12,827**	13,025
Deferred tax assets		**130,021**	121,694
Deposits and other receivable		**44,720**	68,606
Deposits for purchases of items of property, plant and equipment		**4,110**	3,642
Total non-current assets		**1,412,633**	1,538,932
CURRENT ASSETS			
Inventories		**106,633**	132,955
Trade receivables	12	**49,539**	55,980
Prepayments, deposits and other receivables		**102,463**	100,855
Pledged deposits		**14,876**	14,951
Cash and cash equivalents		**289,974**	345,146
Total current assets		**563,485**	649,887
CURRENT LIABILITIES			
Trade payables	13	**81,663**	133,093
Other payables and accruals		**183,173**	221,919
Interest-bearing bank borrowings		**14,003**	37,756
Lease liabilities		**162,912**	176,196
Tax payable		**9,956**	7,694
Total current liabilities		**451,707**	576,658
NET CURRENT ASSETS		**111,778**	73,229
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,524,411**	1,612,161

	Notes	30 June 2024 (Unaudited) HK$'000	31 December 2023 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals		**9,311**	9,609
Interest-bearing bank borrowings		**40,893**	47,951
Lease liabilities		**237,948**	281,907
Deferred tax liabilities		**18,427**	18,439
Total non-current liabilities		**306,579**	357,906
Net assets		**1,217,832**	1,254,255
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Issued capital		**101,435**	101,435
Reserves		**1,097,305**	1,131,599
		1,198,740	1,233,034
Non-controlling interests		**19,092**	21,221
Total equity		**1,217,832**	1,254,255

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

– poultry farm operations

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2024 (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 2023.

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 2023, 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 16	*Lease Liability in a Sale and Leaseback*
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "**2020 Amendments**")
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "**2022 Amendments**")
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*

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

(a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

(b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

    The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information.

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 2024 and 2023 and certain non-current asset information as at 30 June 2024 and 31 December 2023, by geographic area.

(a) ***Revenue from external customers***

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK\$'000	*HK\$'000*
Hong Kong	**838,148**	892,352
Chinese Mainland	**447,427**	612,201
	1,285,575	1,504,553

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

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

	30 June	31 December
	2024	2023
	(Unaudited)	(Audited)
	HK\$'000	*HK\$'000*
Hong Kong	**495,693**	548,147
Chinese Mainland	**742,199**	800,485
	1,237,892	1,348,632

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	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Restaurant and bakery operations	**1,132,831**	1,314,907
Sale of food and other items	**90,850**	111,516
Poultry farm operations	**61,894**	78,130
	1,285,575	1,504,553

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**3,892**	3,010
Compensation received	**15,306**	–
Government grants	**1,314**	1,244
Gross rental income	**567**	225
Sponsorship income	**81**	1,126
Gain on termination of leases	**9,060**	6,833
Others	**3,828**	10,400
	34,048	22,838

6. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans	**1,808**	3,227
Interest on lease liabilities	**8,078**	8,959
	9,886	12,186

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**426,064**	517,739
Depreciation of items of property, plant and equipment	**70,344**	77,816
Depreciation of right-of-use assets	**96,502**	108,095
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	**381,604**	397,791
Retirement benefit scheme contributions (defined contribution schemes)	**23,779**	28,059
	405,383	425,850
(Reversal of impairment)/impairment of trade receivables#	**(502)**	64
Write-off of items of property, plant and equipment#	**14**	298
Impairment of items of property, plant and equipment#	**4,238**	9,447
Impairment of right-of-use assets#	**6,362**	13,098

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 2023: 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 (six months ended 30 June 2023: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (six months ended 30 June 2023: 8.25%) and the remaining assessable profits are taxed at 16.5% (six months ended 30 June 2023: 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	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**2,959**	2,857
Overprovision in the prior periods	**(26)**	(18)
Current – Chinese Mainland		
Charge for the period	**3,636**	283
Deferred	**(8,947)**	12,398
Total tax charge/(credit) for the period	**(2,378)**	15,520

9. DIVIDENDS

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends recognised as distribution during the reporting period:		
2022 final dividend – HK3.00 cents per ordinary share	**–**	30,430
2023 final dividend – HK3.00 cents per ordinary share	**30,430**	–
	30,430	30,430
Dividend declared after the end of the reporting period:		
Interim dividend – Nil (six months ended 30 June 2023: HK3.00 cents per ordinary share)	**–**	30,430

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the unaudited profit for the six months ended 30 June 2024 attributable to ordinary equity holders of the Company of HK$4,022,000 (six months ended 30 June 2023: HK$33,400,000), and the number of ordinary shares of 1,014,348,000 (six months ended 30 June 2023: 1,014,348,000) in issue during the period.

For the six months ended 30 June 2024 and 2023, 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.

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

	Six months ended 30 June	
	2024	2023
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**4,022**	33,400
	Number of shares	
	2024	2023
Shares		
Number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**1,014,348,000**	1,014,348,000

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

During the six months ended 30 June 2024, additions of property, plant and equipment amounted to HK$14,680,000 (six months ended 30 June 2023: HK$60,403,000).

As at 30 June 2024, buildings and leasehold land included in right-of-use assets with a net carrying amount of HK$27,412,000 (31 December 2023: HK$27,970,000) and HK$45,700,000 (31 December 2023: HK$46,095,000), respectively, were pledged to secure banking facilities granted to the Group.

As at 30 June 2024, the Group's investment properties with a total carrying amount of HK$20,500,000 (31 December 2023: HK$20,500,000) were pledged to secure banking facilities granted to the Group.

12. TRADE RECEIVABLES

	30 June 2024 (Unaudited) *HK$'000*	31 December 2023 (Audited) *HK$'000*
Trade receivables	**50,903**	57,846
Impairment	**(1,364)**	(1,866)
	49,539	55,980

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 2024 (Unaudited) *HK$'000*	31 December 2023 (Audited) *HK$'000*
Within 1 month	**30,105**	40,240
1 to 3 months	**17,494**	15,090
Over 3 months	**1,940**	650
	49,539	55,980

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 2024 (Unaudited) *HK$'000*	31 December 2023 (Audited) *HK$'000*
Within 1 month	**67,067**	90,152
1 to 2 months	**6,062**	34,907
2 to 3 months	**1,901**	2,055
Over 3 months	**6,633**	5,979
	81,663	133,093

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 2024 (the "**Period**"). During the Period, the global economy continued to be hampered by geopolitical unrest, interest rate hikes and inflation, resulting in a deceleration of economic growth. As for the Hong Kong F&B market, the general operating environment remained challenging, influenced by local consumers flocking north to spend, evolving spending habits by Chinese Mainland visitors and escalating operational costs. In Chinese Mainland, although revenue of the F&B sector saw a modest increase on a year-on-year basis, yet with fierce market competition, aggressive pricing strategies and customers looking for exceedingly value-for-money options, the sector's profitability shrank. Operating in such challenging market environment, the Group introduced more appealing menus and promoted products that aligned with market trends and customer preferences. It also implemented stringent cost control measures for food and operations, leveraging technology to improve product and service quality. Moreover, the Group endeavoured to strengthen its brand presence through both online and offline marketing channels, aiming to improve its market competitiveness and foster long-term business development.

Financial Results

For the six months ended 30 June 2024, the Group's total revenue was approximately HK$1,285.6 million (2023: HK$1,504.6 million), down by 14.6% year-on-year. Gross profit margin (defined as total revenue minus cost of inventories sold divided by total revenue) was 66.9% (2023: 65.6%). Profit attributable to equity holders of the Company was approximately HK$4.0 million (2023: profit of HK$33.4 million).

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2024.

Hong Kong Operations

Hong Kong operations recorded revenue of approximately HK$838.1 million (2023: HK$892.4 million) for the Period, a 6.1% decrease year-on-year. Earnings before interest, tax, depreciation and amortisation (EBITDA) was approximately HK$118.3 million (2023: HK$149.5 million), 20.9% less against the same period last year. Profit attributable to equity holders of the Company was HK$5.5 million (2023: HK$22.9 million).

During the Period, Hong Kong people continued to travel north to Chinese Mainland to spend. On weekends or long holidays, 100,000 more people would go up north than the number of visitors coming down south. That plus the change in consumption pattern and rise in labour cost hit the Group's business. During the Period, turnover of the Group's restaurants in Hong Kong declined by approximately 6.1%, however, those of the premium brand "Chung's House (鍾菜館)" and "Grand Ballroom (潮囍薈)", which caters mainly to weddings, banquets and corporate events, remained stable.

By launching special menus and "value for money" promotional activities, including "one-dollar" dish series and HK$9.9 late-night hotpot series, dishes of the month and special banquet menus, to meet market demand and during different festivals, the Group was able to attract consumers and boosted customer traffic.

In addressing high food and labour costs, the Group strived to source high-quality and affordable ingredients from all over the world. Through consolidating certain departments and streamlining manpower and organizational structure, the Group punted certain work processes, allowing it to save staff costs.

With demand increasing for OEM business, the Group's logistics centre secured well-known new customers in the first half year. More dim sum, Chinese delicatessens, siu mei (Chinese-style roasted meats), baked goods and Western delicatessens were produced for more hotels, clubs and canteens. In addition, the Group's seasonal product sales recorded double-digit growth relative to the same period last year.

As at 30 June 2024, the Group had a total of 43 (2023: 42) restaurants in Hong Kong. As for Tai Cheong bakeries, there were a total of six shops in Hong Kong (2023: eight) and 11 in Singapore (2023: nine). To celebrate the 70th anniversary of Tai Cheong bakeries this year, the Group will organise various commemorative activities in the second half year, including egg tart workshops, cross-over product cooperation and a Tai Cheong history exhibition, on top of launching special anniversary products.

Chinese Mainland Operations

During the Period, Chinese Mainland operations reported revenue of HK$447.4 million (2023: HK$612.2 million), down 26.9% against the same period of 2023. EBITDA was approximately HK$65.5 million (2023: HK$100.2 million), a 34.6% decrease year-on-year. Loss attributable to equity holders of the Company was HK$1.5 million (2023: profit of HK$10.5 million).

During the Period, performance of Chinese Mainland's restaurant operation weakened when compared with the same period last year, mainly due to the closure of underperforming branches and restoration of some closed branches, resulting in one-off asset write-offs and relevant expenses.

Facing fierce competition in the Chinese Mainland F&B market, and to cope with changes in consumption trends and new consumption concepts, the Group continued to optimise the environment of its restaurants, enhance service quality, develop new products and launch competitive promotional activities.

As at 30 June 2024, the Group had a total of 30 restaurants (2023: 41) in Chinese Mainland. Some branches were closed to match the Group's future development plans.

The chilled and packaged food segment, impacted by e-commerce platforms resorting to low prices and bonus offers to grasp market shares, reported unsatisfactory online sales for the Period. Overall sales of offline wholesale distributors also paled against the same period last year at the decline in customer patronage of physical retail stores and surging operating costs, nonetheless they were still able to contribute profit to the Group. During the Period, the Group launched more than 30 new chilled and packaged food products, such as spicy dumplings, cartoon Chinese zodiac animal buns, and steamed buns cross-over with other brands to bring novelty to customers.

Peripheral Businesses

During the Period, while sales of the Group's self-owned supermarket business fell by about 20%, gross profit margin of the business swelled by approximately 3%, thanks to the Group's effort in adjusting its product portfolio and cooperating with various brand suppliers to launch promotions. Those initiatives, which helped attract higher customer traffic, stimulate in-store spending, and strengthen inventory and cost control had together enabled the Group to widen profit margin of the business.

Looking ahead, the Group plans to introduce more product categories to its self-owned supermarkets, and add consignment services and re-define product zones, so as to improve their shopping environment and present fresh and exciting experience to customers to boost their consumption desire.

Financial resources and liquidity

As at 30 June 2024, the total assets decreased by 9.7% to approximately HK$1,976.1 million (31 December 2023: approximately HK$2,188.8 million) while the total equity decreased by 2.9% to approximately HK$1,217.8 million (31 December 2023: approximately HK$1,254.3 million).

As at 30 June 2024, the Group's total current assets and current liabilities were approximately HK$563.5 million (31 December 2023: approximately HK$649.9 million) and approximately HK$451.7 million (31 December 2023: approximately HK$576.7 million), respectively, while the current ratio calculated by dividing the total current assets over the total current liabilities was approximately 1.25 (31 December 2023: approximately 1.13).

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 2024, the Group had cash and cash equivalents amounted to approximately HK$290.0 million (31 December 2023: approximately HK$345.1 million). After deducting the total interest-bearing bank borrowings of approximately HK$54.9 million (31 December 2023: approximately HK$85.7 million), the Group had a net cash surplus position of approximately HK$235.1 million (31 December 2023: approximately HK$259.4 million).

As at 30 June 2024, the Group's total interest-bearing bank borrowings were decreased to approximately HK$54.9 million (31 December 2023: approximately HK$85.7 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 equity holders of the Company) was 4.6% (31 December 2023: 7.0%).

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 2024 amounted to approximately HK$18.8 million (six months ended 30 June 2023: approximately HK$61.4 million) and the capital commitments as at 30 June 2024 amounted to approximately HK$2.2 million (31 December 2023: approximately HK$2.1 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 2024, the Group pledged its bank deposits of approximately HK$14.9 million (31 December 2023: approximately HK$15.0 million), right-of-use assets of approximately HK$45.7 million (31 December 2023: approximately HK$46.1 million), buildings of approximately HK$27.4 million (31 December 2023: approximately HK$28.0 million) and investment properties of approximately HK$20.5 million (31 December 2023: approximately HK$20.5 million) to secure the banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2024, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$32.6 million (31 December 2023: approximately HK$32.5 million).

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2024 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 2024, the Group had 4,231 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 2024, there are 6,790,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

PROSPECTS

The Group expects the economic and business environment in Hong Kong and Chinese Mainland to remain challenging in the second half of 2024. The management will adopt prudent operational and development strategies to help the Group cope with market changes and seize market opportunities.

Regarding its restaurants in Hong Kong, with "Chung's House (鍾菜館)", "Grand Ballroom (潮囍薈)" and "Boat One (壹號漁船)" reporting good performances, the Group will maintain its multi-brand strategy and open more special brand restaurants to enhance its reputation and competitive advantage.

The Group plans to launch promotional campaigns with more attractive offers and value-for-money products at different time of the day to reward supporters. During breakfast hours, it will extend the "Yum Cha Festival (飲茶節)" morning tea promotion period and launch the "Double Delight for Seniors (老友記孖寶)" at attractive prices to bring more elderly into its restaurants. During lunch hours, noodle products at "irresistible prices" will be available to office workers, and at dinner time, special menus at discounted prices and featuring limited-time seasonal dishes, fresh seafood and traditional plates for customers to choose from. As for late-night hours, customers will be able to enjoy special "$9.9" series seafood hot pot set meals.

To ease such prevailing issues as labour shortage and rising labour costs, the Group has participated in the HKSAR Government-initiated "Enhanced Supplementary Labour Scheme", so that it may import workers from Chinese Mainland to help reduce the workload of frontline staff in its restaurants and logistics centre in Hong Kong, and in turn improve service quality and staff morale.

With its Hong Kong logistics centre obtaining the FSSC 22000 certification, the highest-level third-party food safety audit and accreditation pinpointing the food manufacturing industry, during the Period, the Group is confident of winning the industry's trust in the safety of its products, plus more processing contracts from large F&B chains, enabling it to in turn enlarge its customer base and boost profitability. In addition, it will continue to invest in technologies to upgrade equipment and production techniques for expanding its product range.

For its restaurants in Chinese Mainland, the Group recognises that customers are becoming more discerning about food quality. To enhance customer satisfaction, the Group will accelerate product R&D and improve quality. In addition, it will closely monitor consumer needs and market trends, adjusting its menus, pricing, service scope and marketing strategies accordingly. Regarding its logistics centre operation, chilled and packaged foods are currently sold at its self-owned supermarkets, as well as through e-commerce platforms and wholesale distributors. Moving forward, the Group will actively explore overseas markets, including Malaysia, Thailand, Australia, and the United Kingdom, with the aim of boosting sales and profits.

Looking forward, the management continues to be cautiously optimistic about the performance of the Group's Hong Kong and Chinese Mainland businesses. The Group will prudently expand its restaurant network, improve the efficiency of its logistics centres, adopt stringent cost control strategies and maintain healthy cash flow, so as to ensure the steady growth of its businesses and create long-term value for shareholders.

OTHER INFORMATION

Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2024.

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 2024, the Company has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix C1 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 C.2.1 of the Code. Under the code provision C.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 C.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 C.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 C3 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 2024.

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2024, 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 C1 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, Professor Chan Chi Fai, Andrew and Ms. Wong Fun Ching, 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 2024 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, 22 August 2024

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