



Tao Heung Holdings Limited

稻香控股有限公司\*

(Incorporated in the Cayman Islands with Limited Liability)  
Stock Code : 573



\* For identification purposes only

Interim Report 2012

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# Corporate Information

## Board of Directors

### Executive Directors

Mr. Chung Wai Ping (*Chairman*)  
Mr. Wong Ka Wing  
Mr. Chung Ming Fat  
Mr. Leung Yiu Chun (*Chief Executive Officer*)  
Ms. Wong Fun Ching  
Mr. Ho Yuen Wah

### Non-executive Directors

Mr. Fong Siu Kwong  
Mr. Chan Yue Kwong, Michael

### Independent non-executive Directors

Mr. Li Tze Leung  
Professor Chan Chi Fai, Andrew  
Mr. Mak Hing Keung, Thomas  
Mr. Ng Yat Cheung

### Company Secretary

Mr. Leung Yiu Chun *FCCA, FCPA*

### Authorised Representatives

Mr. Leung Yiu Chun  
Mr. Ho Yuen Wah

### Members of Audit Committee

Mr. Mak Hing Keung, Thomas (*Chairman*)  
Mr. Li Tze Leung  
Professor Chan Chi Fai, Andrew  
Mr. Chan Yue Kwong, Michael

### Members of Nomination Committee

Professor Chan Chi Fai, Andrew (*Chairman*)  
Mr. Ng Yat Cheung  
Mr. Chan Yue Kwong, Michael

### Members of Remuneration Committee

Mr. Li Tze Leung (*Chairman*)  
Mr. Fong Siu Kwong  
Mr. Mak Hing Keung, Thomas

## Registered Office

Cricket Square, Hutchins Drive  
P.O. Box 2681, Grand Cayman  
KY1-1111, Cayman Islands

## Principal Place of Business in Hong Kong

No. 18 Dai Fat Street  
Tai Po Industrial Estate  
Tai Po, New Territories, Hong Kong

## Principal Share Registrar

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House, 68 Fort Street  
P.O. Box 705, Grand Cayman  
KY1-1107, Cayman Islands

## Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## Principal Bankers

Bank of China (Hong Kong) Limited  
Bank of East Asia, Limited  
BNP Paribas, Hong Kong Branch  
DBS Bank (Hong Kong) Limited  
Deutsche Bank AG, Hong Kong Branch  
Hang Seng Bank Limited  
Standard Chartered Bank (Hong Kong) Limited

## Principal Auditors

Ernst & Young

## Stock Code

573

## Website

[www.taoheung.com.hk](http://www.taoheung.com.hk)

# Financial Highlights

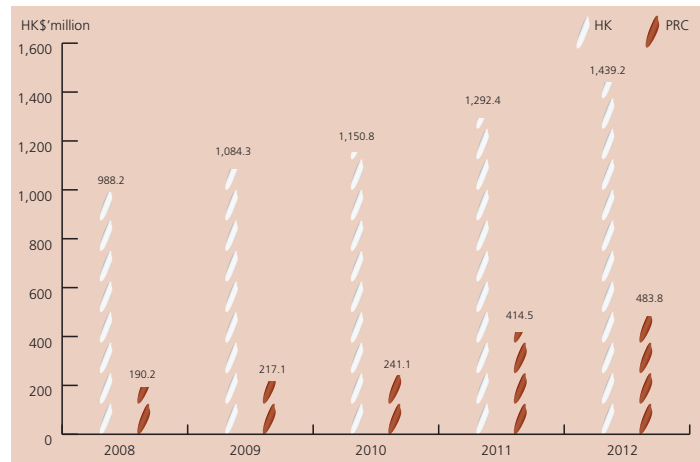
| Key Financial Ratios                        | Notes | Six months ended 30 June                             |  | % Change<br>Increase/<br>(Decrease) |
|---|-------|--|--|-------------------------------------|
|   |       | 2012<br>(Unaudited)<br>HK\$'000                      | 2011<br>(Unaudited)<br>HK\$'000              |                                     |
| <b>Performance</b>                          |       |  |  |                                     |
| Revenue                                     |       | <b>1,923,019</b>                                     | 1,706,927                                    | 12.7%                               |
| EBITDA                                      |       | <b>285,913</b>                                       | 259,683                                      | 10.1%                               |
| Profit attributable to owners of the parent |       | <b>138,835</b>                                       | 125,310                                      | 10.8%                               |
| Gross profit margin                         |       | <b>15.9%</b>   | 16.7%  | (4.8%)                              |
| Net profit margin                           | 1     | <b>7.2%</b>  | 7.3%   | (1.4%)                              |
|   |       | <b>HK cents</b>                                      | HK cents                                     |                                     |
| <b>Per Share Data</b>                       |       |  |  |                                     |
| Earnings per share                          |       |  |  |                                     |
| – Basic                                     |       | <b>13.62</b>   | 12.33  | 10.5%                               |
| – Dilutive                                  |       | <b>13.59</b>   | 12.28  | 10.7%                               |
| Interim dividend per share                  |       | <b>6.20</b>  | 6.20   |                                     |
|   |       | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 | % Change<br>Increase/<br>(Decrease) |
| Total assets                                |       | <b>1,995,397</b>                                     | 1,950,855                                    | 2.3%                                |
| Net assets                                  |       | <b>1,473,286</b>                                     | 1,395,732                                    | 5.6%                                |
| Cash and cash equivalents                   |       | <b>281,877</b>                                       | 311,445                                      | (9.5%)                              |
| Net cash                                    | 2     | <b>249,361</b>                                       | 289,577                                      | (13.9%)                             |
| <b>Liquidity and Gearing</b>                |       |  |  |                                     |
| Current ratio                               | 3     | <b>1.1</b>   | 1.2  | (8.3%)                              |
| Quick ratio                                 | 4     | <b>0.9</b>   | 1.0  | (10.0%)                             |
| Gearing ratio                               | 5     | <b>2.3%</b>  | 1.6%   | 43.8%                               |
|   |       | <b>HK cents</b>                                      | HK cents                                     |                                     |
| <b>Per Share Data</b>                       |       |  |  |                                     |
| Net assets per share                        | 6     | <b>144.21</b>  | 137.20                                       | 5.1%                                |
| Net cash per share                          | 7     | <b>24.41</b>   | 28.47  | (14.3%)                             |

## Notes:

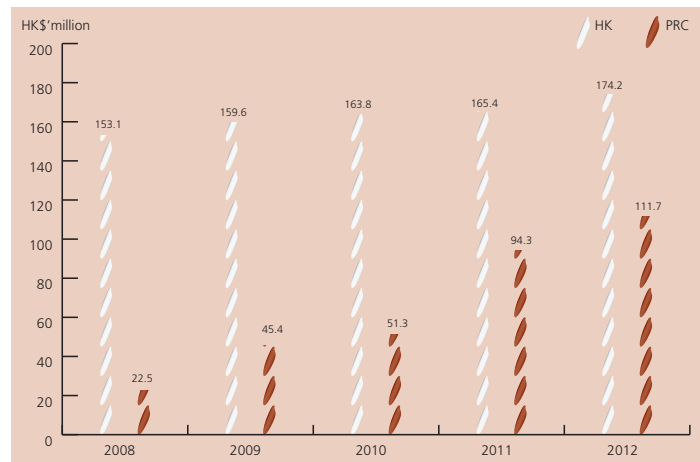
- Net profit margin is calculated as net profit attributable to owners of the parent divided by revenue.
- Net cash is cash and cash equivalents less interest-bearing bank borrowings.
- Current ratio is calculated as current assets divided by current liabilities.
- Quick ratio is calculated as current assets less inventories divided by current liabilities.
- Gearing ratio is calculated as total debt (interest-bearing bank borrowings and finance lease payables) divided by total equity attributable to owners of the parent.
- Net assets per share is calculated based on the number of 1,021,611,000 shares (31 December 2011: 1,017,293,000 shares).
- Net cash per share is calculated based on the number of 1,021,611,000 shares (31 December 2011: 1,017,293,000 shares).

## Financial Highlights (continued)

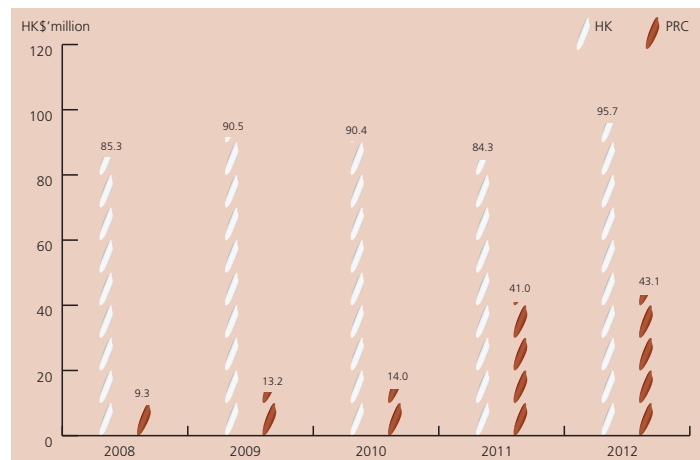
### Turnover for the six months ended 30 June



### EBITDA for the six months ended 30 June



### Profit attributable to owners of the parent for the six months ended 30 June



# Condensed Consolidated Income Statement

For the six months ended 30 June 2012

## Interim Results (Unaudited)

The board (the "Board") of directors 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 2012 together with comparative figures for the corresponding period in 2011. These interim condensed consolidated financial statements for the six months ended 30 June 2012 have not been audited, but have been reviewed by the Audit Committee of the Company.

|   |              | <b>Six months ended 30 June</b> |               |
|---|--------------|---------------------------------|---------------|
|   | <i>Notes</i> | <b>2012</b>                     | 2011          |
|   |              | <b>(Unaudited)</b>              | (Unaudited)   |
|   |              | <b>HK\$'000</b>                 | HK\$'000      |
| REVENUE   | 5            | <b>1,923,019</b>                | 1,706,927     |
| Cost of sales   |              | <b>(1,618,086)</b>              | (1,421,888)   |
| Gross profit  |              | <b>304,933</b>                  | 285,039       |
| Other income and gains  | 5            | <b>11,078</b>                   | 15,046        |
| Selling and distribution costs  |              | <b>(39,346)</b>                 | (42,532)      |
| Administrative expenses   |              | <b>(102,281)</b>                | (98,329)      |
| Finance costs   | 6            | <b>(77)</b>                     | (138)         |
| PROFIT BEFORE TAX   | 7            | <b>174,307</b>                  | 159,086       |
| Income tax expense  | 8            | <b>(33,418)</b>                 | (31,816)      |
| PROFIT FOR THE PERIOD   |              | <b>140,889</b>                  | 127,270       |
| Attributable to:  |              |                                 |               |
| Owners of the parent  |              | <b>138,835</b>                  | 125,310       |
| Non-controlling interests   |              | <b>2,054</b>                    | 1,960         |
|   |              | <b>140,889</b>                  | 127,270       |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY<br>EQUITY HOLDERS OF THE PARENT |              |                                 |               |
| – Basic   | 10           | <b>HK13.62 cents</b>            | HK12.33 cents |
| – Diluted   | 10           | <b>HK13.59 cents</b>            | HK12.28 cents |

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

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

|  | Six months ended 30 June |             |
|--|--------------------------|-------------|
|  | 2012                     | 2011        |
|  | (Unaudited)              | (Unaudited) |
|  | HK\$'000                 | HK\$'000    |
| <b>PROFIT FOR THE PERIOD</b>                                 | <b>140,889</b>           | 127,270     |
| Other comprehensive income/(loss) for the period             |                          |             |
| Exchange differences on translation of<br>foreign operations | <b>(1,055)</b>           | 13,525      |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>             | <b>139,834</b>           | 140,795     |
| Attributable to:   |                          |             |
| Owners of the parent   | <b>137,757</b>           | 138,715     |
| Non-controlling interests                                    | <b>2,077</b>             | 2,080       |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>             | <b>139,834</b>           | 140,795     |

# Condensed Consolidated Statement of Financial Position

As at 30 June 2012

|   | <i>Notes</i> | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---|--------------|--|--|
| <b>NON-CURRENT ASSETS</b>                               |              |  |  |
| Property, plant and equipment                           | 11           | 1,108,321  | 1,031,228                                    |
| Prepaid land lease payments                             |              | 54,299   | 19,354                                       |
| Investment properties                                   | 11           | 8,540  | 8,540  |
| Goodwill  | 12           | 38,849   | 38,239                                       |
| Interests in associates                                 |              | 7,765  | 3,316  |
| Biological assets                                       |              | 2,339  | 2,803  |
| Deferred tax assets                                     |              | 62,159   | 62,934                                       |
| Rental deposits   |              | 97,140   | 94,278                                       |
| Deposits for purchases of property, plant and equipment |              | 56,071   | 38,148                                       |
| Other deposits  |              | 1,648  | 1,648  |
| <b>Total non-current assets</b>                         |              | <b>1,437,131</b>                                     | 1,300,488                                    |
| <b>CURRENT ASSETS</b>                                   |              |  |  |
| Inventories   |              | 119,431  | 134,833                                      |
| Biological assets                                       |              | 8,735  | 9,269  |
| Trade receivables                                       | 13           | 25,593   | 25,720                                       |
| Prepayments, deposits and other receivables             |              | 107,851  | 82,306                                       |
| Tax recoverable   |              | 2,288  | 3,823  |
| Pledged deposits  |              | 12,491   | 11,914                                       |
| Restricted cash   |              | –  | 71,057                                       |
| Cash and cash equivalents                               |              | 281,877  | 311,445                                      |
| <b>Total current assets</b>                             |              | <b>558,266</b>                                       | 650,367                                      |
| <b>CURRENT LIABILITIES</b>                              |              |  |  |
| Trade payables  | 14           | 135,444  | 179,271                                      |
| Other payables and accruals                             |              | 289,456  | 299,171                                      |
| Interest-bearing bank borrowings                        |              | 32,516   | 21,868                                       |
| Finance lease payables                                  |              | 311  | 323  |
| Due to a non-controlling shareholder of subsidiary      |              | 60   | 60   |
| Tax payable   |              | 39,441   | 26,764                                       |
| <b>Total current liabilities</b>                        |              | <b>497,228</b>                                       | 527,457                                      |
| <b>NET CURRENT ASSETS</b>                               |              | <b>61,038</b>  | 122,910                                      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>            |              | <b>1,498,169</b>                                     | 1,423,398                                    |



## Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2012

|   | <i>Notes</i> | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---|--------------|--|--|
| <b>NON-CURRENT LIABILITIES</b>                      |              |  |  |
| Finance lease payables                              |              | 547  | 621  |
| Due to non-controlling shareholders of subsidiaries |              | 11,356   | 11,391                                       |
| Deferred tax liabilities                            |              | 12,980   | 15,654                                       |
| <b>Total non-current liabilities</b>                |              | <b>24,883</b>  | 27,666                                       |
| <b>Net assets</b>                                   |              | <b>1,473,286</b>                                     | 1,395,732                                    |
| <b>EQUITY</b>                                       |              |  |  |
| Equity attributable to owners of the parent         |              |  |  |
| Issued capital                                      |              | 102,161  | 101,729                                      |
| Reserves  |              | 1,290,199  | 1,209,633                                    |
| Proposed dividend                                   | 9            | 63,340   | 67,141                                       |
| <b>Non-controlling interests</b>                    |              | <b>1,455,700</b>                                     | 1,378,503                                    |
|   |              | 17,586   | 17,229                                       |
| <b>Total equity</b>                                 |              | <b>1,473,286</b>                                     | 1,395,732                                    |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

|  | Attributable to owners of the parent |                         |                         |                         |                         |                         |                            |                              |                         |                         |                         |                           |                         |
|--|--------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|----------------------------|------------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
|  | Note                                 | Issued capital          | Share premium           | Capital reserve         | Other reserve           | Share option reserve    | Capital redemption reserve | Exchange fluctuation reserve | Retained profits        | Proposed dividends      | Total                   | Non-controlling interests | Total equity            |
|  |                                      | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000    | (Unaudited)<br>HK\$'000      | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000 | (Unaudited)<br>HK\$'000   | (Unaudited)<br>HK\$'000 |
| At 1 January 2011  |                                      | 101,614                 | 316,526                 | 110,748                 | 21,136                  | 19,206                  | 9                          | 38,363                       | 556,729                 | 64,017                  | 1,228,348               | 2,898                     | 1,231,246               |
| Profit for the period  |                                      | -                       | -                       | -                       | -                       | -                       | -                          | -                            | 125,310                 | -                       | 125,310                 | 1,960                     | 127,270                 |
| Other comprehensive income for the period                      |                                      |                         |                         |                         |                         |                         |                            |                              |                         |                         |                         |                           |                         |
| Exchange difference on translation of foreign operations       |                                      | -                       | -                       | -                       | -                       | -                       | -                          | 13,405                       | -                       | -                       | 13,405                  | 120                       | 13,525                  |
| Total comprehensive income for the period                      |                                      | -                       | -                       | -                       | -                       | -                       | -                          | 13,405                       | 125,310                 | -                       | 138,715                 | 2,080                     | 140,795                 |
| Equity-settled share option arrangements                       |                                      | -                       | -                       | -                       | -                       | 743                     | -                          | -                            | -                       | -                       | 743                     | -                         | 743                     |
| Issue of shares  |                                      | 79                      | 2,689                   | -                       | -                       | (1,519)                 | -                          | -                            | -                       | -                       | 1,249                   | -                         | 1,249                   |
| Acquisition of subsidiaries                                    |                                      | -                       | -                       | -                       | -                       | -                       | -                          | -                            | -                       | -                       | -                       | 5,875                     | 5,875                   |
| Acquisition of non-controlling interests                       |                                      | -                       | -                       | -                       | (1,358)                 | -                       | -                          | -                            | -                       | -                       | (1,358)                 | (176)                     | (1,534)                 |
| Dividend paid to a non-controlling shareholder of subsidiaries |                                      | -                       | -                       | -                       | -                       | -                       | -                          | -                            | -                       | -                       | -                       | (1,920)                   | (1,920)                 |
| Final 2010 dividend  | 9                                    | -                       | -                       | -                       | -                       | -                       | -                          | -                            | (49)                    | (64,017)                | (64,066)                | -                         | (64,066)                |
| Proposed interim 2011 dividend                                 | 9                                    | -                       | -                       | -                       | -                       | -                       | -                          | -                            | (63,067)                | 63,067                  | -                       | -                         | -                       |
| At 30 June 2011  |                                      | 101,693                 | 319,215                 | 110,748                 | 19,778                  | 18,430                  | 9                          | 51,768                       | 618,923                 | 63,067                  | 1,303,631               | 8,757                     | 1,312,388               |
| At 1 January 2012  |                                      | 101,729                 | 320,471                 | 110,748                 | 19,778                  | 17,720                  | 9                          | 59,202                       | 681,705                 | 67,141                  | 1,378,503               | 17,229                    | 1,395,732               |
| Profit for the period  |                                      | -                       | -                       | -                       | -                       | -                       | -                          | -                            | 138,835                 | -                       | 138,835                 | 2,054                     | 140,889                 |
| Other comprehensive income for the period                      |                                      |                         |                         |                         |                         |                         |                            |                              |                         |                         |                         |                           |                         |
| Exchange difference on translation of foreign operations       |                                      | -                       | -                       | -                       | -                       | -                       | -                          | (1,078)                      | -                       | -                       | (1,078)                 | 23                        | (1,055)                 |
| Total comprehensive income for the period                      |                                      | -                       | -                       | -                       | -                       | -                       | -                          | (1,078)                      | 138,835                 | -                       | 137,757                 | 2,077                     | 139,834                 |
| Issue of shares  |                                      | 432                     | 14,749                  | -                       | -                       | (8,315)                 | -                          | -                            | -                       | -                       | 6,866                   | -                         | 6,866                   |
| Dividend paid to a non-controlling shareholder of subsidiary   |                                      | -                       | -                       | -                       | -                       | -                       | -                          | -                            | -                       | -                       | -                       | (1,720)                   | (1,720)                 |
| Final 2011 dividend  | 9                                    | -                       | -                       | -                       | -                       | -                       | -                          | -                            | (285)                   | (67,141)                | (67,426)                | -                         | (67,426)                |
| Proposed interim 2012 dividend                                 | 9                                    | -                       | -                       | -                       | -                       | -                       | -                          | -                            | (63,340)                | 63,340                  | -                       | -                         | -                       |
| At 30 June 2012  |                                      | 102,161                 | 335,220*                | 110,748*                | 19,778*                 | 9,405*                  | 9*                         | 58,124*                      | 756,915*                | 63,340                  | 1,455,700               | 17,586                    | 1,473,286               |

\* These reserve accounts comprise the consolidated reserves of HK\$1,290,199,000 (31 December 2011: HK\$1,209,633,000) in the condensed consolidated statement of financial position.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

|   | <b>Six months ended 30 June</b>                      |  |
|---|--|--|
|   | <b>2012</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> | <b>2011</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> |
| Net cash flows from operating activities  | <b>205,231</b>                                       | 223,773  |
| Net cash flows used in investing activities   | <b>(183,107)</b>                                     | (172,984)  |
| Net cash flows used in financing activities   | <b>(51,728)</b>                                      | (58,308)   |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>(29,604)</b>                                      | (7,519)  |
| Cash and cash equivalents at beginning of period  | <b>311,445</b>                                       | 332,655  |
| Effect of foreign exchange rate change, net   | <b>36</b>  | 5,672  |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>   | <b>281,877</b>                                       | 330,808  |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>  |  |  |
| Cash and bank balances  | <b>281,877</b>                                       | 330,808  |
| Non-pledged time deposits with original maturity of less than six months when acquired            | –  | 65,381   |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | <b>281,877</b>                                       | 396,189  |
| Non-pledged time deposits with original maturity of more than three months when acquired          | –  | (65,381)   |
|   | <b>281,877</b>                                       | 330,808  |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

## 1. CORPORATE INFORMATION

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

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

- restaurant operations and provision of food catering services
- bakery operations
- production, sale and distribution of food products related to its restaurant operations
- poultry farm operations

## 2. BASIS OF PRESENTATION AND PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 (the "Interim Financial Statements") have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 2011.

## 3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those used in the financial statements of the Group for the year ended 31 December 2011, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's accounting period beginning on or after 1 January 2012.

|                    |  |
|--------------------|--|
| HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>  |
| HKAS 12 Amendments | Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>  |

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

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 3. ACCOUNTING POLICIES (continued)

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

|  |  |
|--|--|
| HKFRS 1 Amendments                     | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> <sup>2</sup>          |
| HKFRS 7 Amendments                     | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup> |
| HKFRS 9                                | <i>Financial Instruments</i> <sup>4</sup>  |
| HKFRS 10                               | <i>Consolidated Financial Statements</i> <sup>2</sup>  |
| HKFRS 11                               | <i>Joint Arrangements</i> <sup>2</sup>   |
| HKFRS 12                               | <i>Disclosure on Interests in Other Entities</i> <sup>2</sup>  |
| HKFRS 13                               | <i>Fair Value Measurement</i> <sup>2</sup>   |
| HKAS 1 Amendments                      | <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>1</sup>                       |
| HKAS 19 (2011)                         | <i>Employee Benefits</i> <sup>2</sup>  |
| HKAS 27 (2011)                         | <i>Separate Financial Statements</i> <sup>2</sup>  |
| HKAS 28 (2011)                         | <i>Investments in Associates and Joint Ventures</i> <sup>2</sup>   |
| HKAS 32 Amendments                     | Amendment to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>3</sup> |
| HK(IFRIC)-Int 20                       | <i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>2</sup>  |
| Annual Improvements<br>2009–2011 Cycle | Amendments to a number of HKFRSs issued in June 2012 <sup>2</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

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

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 4. OPERATING SEGMENT INFORMATION

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

#### Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2012 and 2011 and certain non-current asset information as at 30 June 2012 and 31 December 2011, by geographic area.

(a) *Revenue from external customers*

|                | Six months ended 30 June        |                                 |
|----------------|---------------------------------|---------------------------------|
|                | 2012<br>(Unaudited)<br>HK\$'000 | 2011<br>(Unaudited)<br>HK\$'000 |
| Hong Kong      | 1,439,220                       | 1,292,405                       |
| Mainland China | 483,799                         | 414,522                         |
|                | <b>1,923,019</b>                | 1,706,927                       |

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

(b) *Non-current assets*

|                | 30 June<br>2012<br>(Unaudited)<br>HK\$'000 | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|----------------|--|--|
|                | Hong Kong                                  | 587,902                                      |
| Mainland China | 688,282                                    | 600,408                                      |
|                | <b>1,276,184</b>                           | 1,141,628                                    |

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

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents gross revenue from restaurant, bakery and poultry farm operations, net of relevant business tax and allowances for trade discounts.

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

|   | <b>Six months ended 30 June</b>                      |                                 |
|---|--|---------------------------------|
|   | <b>2012</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> | 2011<br>(Unaudited)<br>HK\$'000 |
| <b>REVENUE</b>  |  |                                 |
| Restaurant and bakery operations                                | <b>1,822,970</b>                                     | 1,617,938                       |
| Sale of food  | <b>100,049</b>                                       | 88,989                          |
|   | <b>1,923,019</b>                                     | 1,706,927                       |
| <b>OTHER INCOME AND GAINS</b>                                   |  |                                 |
| Bank interest income  | <b>466</b>   | 1,912                           |
| Gross rental income from investment properties                  | <b>246</b>   | 233                             |
| Sponsorship income  | <b>3,015</b>   | 1,623                           |
| Gain on disposal of items of property, plant and equipment, net | <b>148</b>   | 7,974                           |
| Others  | <b>7,203</b>   | 3,304                           |
|   | <b>11,078</b>  | 15,046                          |

### 6. FINANCE COSTS

|  | <b>Six months ended 30 June</b>                      |                                 |
|--|--|---------------------------------|
|  | <b>2012</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> | 2011<br>(Unaudited)<br>HK\$'000 |
| Interest on bank loans wholly repayable  |  |                                 |
| – Within five years  | <b>60</b>  | 128                             |
| – Beyond five years  | <b>7</b>   | 7                               |
| Interest on finance leases   | <b>10</b>  | 3                               |
| Total interest expense on financial liabilities not at fair value through profit or loss | <b>77</b>  | 138                             |

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 7. PROFIT BEFORE TAX

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

|  | <b>Six months ended 30 June</b>                      |                                 |
|--|--|---------------------------------|
|  | <b>2012</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> | 2011<br>(Unaudited)<br>HK\$'000 |
| Gross and net rental income from investment properties                     | <b>(246)</b>   | (233)                           |
| Employee benefit expenses (including directors' remuneration):             |  |                                 |
| Salaries and bonuses   | <b>494,396</b>                                       | 432,508                         |
| Retirement benefit scheme contributions<br>(defined contribution schemes)  | <b>28,966</b>  | 24,021                          |
| Equity-settled share option expense  | –  | 743                             |
|  | <b>523,362</b>                                       | 457,272                         |
| Cost of inventories sold   | <b>641,796</b>                                       | 565,730                         |
| Depreciation   | <b>111,127</b>                                       | 100,279                         |
| Amortisation of land lease payments  | <b>402</b>   | 180                             |
| Lease payments under operating leases in respect of<br>land and buildings: |  |                                 |
| Minimum lease payments   | <b>133,669</b>                                       | 117,379                         |
| Contingent rents   | <b>7,065</b>   | 5,391                           |
|  | <b>140,734</b>                                       | 122,770                         |
| Foreign exchange differences, net  | <b>774</b>   | (1,954)                         |
| Gain on disposal of items of property, plant and equipment, net            | <b>(148)</b>   | (7,974)                         |
| Write-off of items of property, plant and equipment                        | <b>270</b>   | 6,993                           |



## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2012. 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        |                                 |
|---------------------------------|---------------------------------|---------------------------------|
|                                 | 2012<br>(Unaudited)<br>HK\$'000 | 2011<br>(Unaudited)<br>HK\$'000 |
| Current – Hong Kong             |                                 |                                 |
| Charge for the period           | 18,527                          | 14,710                          |
| Current – Elsewhere             | 12,973                          | 9,200                           |
| Deferred                        | 1,918                           | 7,906                           |
| Total tax charge for the period | 33,418                          | 31,816                          |

### 9. DIVIDEND

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2012<br>(Unaudited)<br>HK\$'000 | 2011<br>(Unaudited)<br>HK\$'000 |
| Additional 2011 final – HK6.60 cents (2010: HK6.30 cents)                  | 285                             | 49                              |
| Proposed interim – HK6.20 cents<br>(2011: HK6.20 cents) per ordinary share | 63,340                          | 63,067                          |
|  | 63,625                          | 63,116                          |

The proposed dividend for the period under review has been approved at the Company's board meeting held on 23 August 2012.

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 10. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the unaudited consolidated profit for the six months ended 30 June 2012 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,019,143,253 (2011: 1,016,327,492) in issue during the period under review.

The calculation of the diluted earnings per share amounts is based on the unaudited consolidated profit for the six month ended 30 June 2012 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of the Pre-IPO Share Option Scheme.

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

|  | Six months ended 30 June |               |
|--|--------------------------|---------------|
|  | 2012                     | 2011          |
|  | (Unaudited)              | (Unaudited)   |
|  | HK\$'000                 | HK\$'000      |
| <b>Earnings</b>  |                          |               |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation         | 138,835                  | 125,310       |
|  |                          |               |
|  | Number of shares         |               |
|  | 2012                     | 2011          |
| <b>Shares</b>  |                          |               |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | 1,019,143,253            | 1,016,327,492 |
| Effect of dilution – weighted average number of ordinary shares:<br>Share options                                      | 2,772,988                | 4,120,107     |
|  | 1,021,916,241            | 1,020,447,599 |

### 11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2012, additions of property, plant and equipment and investment properties amounted to HK\$250,340,000 in aggregate (2011: HK\$147,119,000).

As at 30 June 2012, leasehold land and buildings with net book value of approximately HK\$55,891,000 (31 December 2011: HK\$56,323,000) were pledged to secure banking facilities granted to the Group.

As at 30 June 2012, the Group's investment properties with a total carrying amount of HK\$7,340,000 (31 December 2011: HK\$7,340,000) were pledged to secure banking facilities granted to the Group.

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 12. GOODWILL

|                                       | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---------------------------------------|--|--|
| Carrying amount at 1 January          | <b>38,239</b>  | 22,020                                       |
| Acquisition of subsidiaries (note 19) | –  | 15,504                                       |
| Exchange realignment                  | <b>610</b>   | 715  |
|                                       | <b>38,849</b>  | 38,239                                       |

### 13. TRADE RECEIVABLES

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

An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date and that are not considered to be impaired, is as follows:

|                               | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|-------------------------------|--|--|
| Neither past due nor impaired | <b>12,660</b>  | 13,778                                       |
| Less than 1 month past due    | <b>6,814</b>   | 7,525  |
| 1 to 3 months past due        | <b>3,465</b>   | 3,682  |
| Over 3 months past due        | <b>2,654</b>   | 735  |
|                               | <b>25,593</b>  | 25,720                                       |

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 14. TRADE PAYABLES

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

|                | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|----------------|--|--|
| Within 1 month | 116,107  | 162,295                                      |
| 1 to 2 months  | 16,323   | 8,927  |
| 2 to 3 months  | 462  | 3,099  |
| Over 3 months  | 2,552  | 4,950  |
|                | <b>135,444</b>                                       | 179,271                                      |

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

### 15. CONTINGENT LIABILITIES

|   | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Bank guarantees given in lieu of utility and property rental deposits | 28,363   | 26,249                                       |

### 16. OPERATING LEASE ARRANGEMENTS

(i) **As lessor**

The Group leases its investment properties to third parties under operating lease arrangements with lease negotiated for terms ranging from two to three years.

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

|                 | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|-----------------|--|--|
| Within one year | 6  | 6  |

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 16. OPERATING LEASE ARRANGEMENTS (continued)

#### (ii) As lessee

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

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

|   | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Within one year                         | 233,522  | 238,326                                      |
| In the second to fifth years, inclusive | 444,655  | 393,876                                      |
| Beyond five years                       | 331,767  | 184,269                                      |
|   | <b>1,009,944</b>                                     | 816,471                                      |

The operating leases of certain restaurant and bakery properties also call for additional rentals, which will be based on certain percentage of revenue of the operation being undertaken therein pursuant to the terms and conditions as stipulated in the respective rental agreements. As the future revenue of these restaurants could not be accurately determined as at the end of the reporting period, the relevant contingent rental has not been included.

### 17. COMMITMENTS

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

|   | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Contracted but not provided for:<br>Property, plant and equipment | <b>64,374</b>  | 76,423                                       |

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 18. CONNECTED AND RELATED PARTY TRANSACTIONS

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

#### (a) Transactions with connected and related parties

Particulars of significant transactions between the Group and connected and related parties are summarised as follows:

|   | Notes      | Six months ended 30 June        |                                 |
|---|------------|---------------------------------|---------------------------------|
|   |            | 2012<br>(Unaudited)<br>HK\$'000 | 2011<br>(Unaudited)<br>HK\$'000 |
| Purchases of food and other operating items |            |                                 |                                 |
| Skybest International Investment            |            |                                 |                                 |
| Enterprise Limited ("Skybest")              | (i) & (ii) | –                               | 967                             |
| Rental expense to a related party           | (iii)      | 48                              | 48                              |

Notes:

- (i) Skybest was a non-wholly owned subsidiaries of the Company and a connected person of the Company as Café de Coral Holdings Limited, a substantial shareholder (as such term is defined under the Listing Rules) of the Company, held 20% of the issued share capital of Skybest. As at 31 January 2011, the Group acquired remaining 20% interests from the then shareholder. Since then, Skybest become an indirect wholly-owned subsidiary of the Company.
- (ii) The purchase of food and other operating items are charged based on terms and conditions negotiated on an individual basis.
- (iii) The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, was charged based on mutually agreed terms at a monthly fixed amount of HK\$4,000 (2011: HK\$4,000).

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

#### (b) Key management compensation

|                              | Six months ended 30 June        |                                 |
|------------------------------|---------------------------------|---------------------------------|
|                              | 2012<br>(Unaudited)<br>HK\$'000 | 2011<br>(Unaudited)<br>HK\$'000 |
| Short term employee benefits | 2,486                           | 2,190                           |
| Post-employment benefits     | 36                              | 34                              |
|                              | 2,522                           | 2,224                           |

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 19. BUSINESS COMBINATIONS

On 30 December 2010, the Group entered into agreements with Guangzhou Baixing Pasturage and Feed Co., Ltd. ("Baixing"), Guangzhou Rongli Poultry Co., Ltd. ("Rongli") and Guangzhou Yisheng Poultry Co., Ltd. ("Yisheng") (collectively the "Baixing Group") to acquire a 70% equity interest of the Baixing Group at a total consideration of RMB38,000,000 (approximately HK\$44,422,000) (the "Acquisition") effective from 1 January 2011. In the opinion of the directors, the Acquisition (i) enables the Group to expand into the upstream part of the supply chain while at the same time benefiting from the profits generated from the poultry farm operations; (ii) provides a stable supply of chicken to meet the increasing demand for poultry products as a result of the Group's business expansion; and (iii) ensures high quality and safety standards of poultry products as these products are bred, fed and processed by the Group's subsidiaries.

The fair values of the identifiable assets and liabilities of the Baixing Group as at the date of the Acquisition were as follows:

|  | <b>Fair<br/>value<br/>recognised<br/>on acquisition</b><br>HK\$'000 |
|--|---|
| Property, plant and equipment                | 74,232  |
| Biological assets                            | 14,853  |
| Inventories                                  | 4,199   |
| Trade receivables                            | 9,282   |
| Prepayments, deposits and other receivables  | 6,376   |
| Cash and bank balances                       | 6,030   |
| Trade payables                               | (9,066)   |
| Other payables and accruals                  | (61,457)  |
| Tax payable                                  | (27)  |
| Deferred tax liabilities                     | (3,110)   |
| Non-controlling interests                    | (12,394)  |
| Total identifiable net assets at fair values | 28,918  |
| Goodwill on acquisition ( <i>note 12</i> )   | 15,504  |
| Satisfied by cash                            | 44,422  |

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2012

### 19. BUSINESS COMBINATIONS (continued)

An analysis of the cash flows in respect of the Acquisition is as follows:

|  | HK\$'000 |
|--|----------|
| Cash consideration   | (44,422) |
| Cash and bank balances acquired  | 6,030    |
| Net outflow of cash and cash equivalent included in cash flows from investing activities | (38,392) |
| Transaction costs of the Acquisition included in cash flows from operating activities    | (1,408)  |
|  | (39,800) |

Since the Acquisition, Baixing Group contributed HK\$40,617,000 to the Group's revenue and HK\$5,090,000 to the consolidated profit for the period ended 30 June 2011.

### 20. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY WITHOUT CHANGE OF CONTROL

On 31 January 2011, the Group acquired an additional 20% of the issued shares of Skybest for a purchase consideration of HK\$1,534,000. The carrying amount of the non-controlling interests in Skybest on the date of acquisition was HK\$176,000. The Group recognised a decrease in non-controlling interest of HK\$176,000 and a decrease in equity attributable to owners of the Company of HK\$1,358,000.

### 21. EVENT AFTER THE REPORTING PERIOD

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



# Management Discussion and Analysis

## Business Review

The Board is pleased to announce the Group's unaudited interim results for the six months ended 30 June 2012. Over the past six months, the Group continued to achieve steady growth despite increasingly challenging conditions in Hong Kong and Mainland China as economic growth and consumer confidence were affected by the sluggish world economy.

During the reporting period, the Group employed a number of promotional campaigns, including the renowned "HK\$1 Chicken" promotion to draw in customers and stimulate their willingness to spend within an expanded network of restaurants. Indicative of the promotions' success, the Group achieved a new record of approximately 3.5 million and 0.8 million patrons per month in Hong Kong and Mainland China respectively.

While operating expenses, including food and labour have stabilised, the management has nevertheless been unrelenting in its efforts to control all expenditures. Hence, further automation to reduce reliance on labour and workflow re-engineering were practiced to protect the profitability of the Group. Having acquired a poultry farm in Mainland China back in January 2011 as part of efforts to establish a vertically integrated food supply network, the farm has subsequently helped the Group contain food costs. What is more, with both logistics centres in Dongguan and Tai Po fully operational, they have been essential for helping raise the Group's overall efficiency and realise satisfactory profit growth during the review period.

## Financial results

The Group's total revenue increased by 12.7% year on year to approximately HK\$1,923.0 million owing to the opening of four new restaurants and three Tai Cheong Bakery outlets in Hong Kong and one new shop in Mainland China during the period, as well as very positive demand for several promotions introduced in both Hong Kong and Mainland China. EBITDA increased by 10.1% to HK\$285.9 million, up from HK\$259.7 million recorded in the first half of last year. Profit attributable to owners of the parent amounted to HK\$138.8 million, rising 10.8% from HK\$125.3 million in 2011.

The Board has proposed an interim dividend of HK6.2 cents per share for the six months ended 30 June 2012, representing a dividend payout ratio of 45.5%. The management intends to retain surplus cash for strategic expansion in Mainland China.

## Hong Kong operations

The Group continued to generate healthy returns from the Hong Kong market, with revenue rising by 11.4% year on year to HK\$1,439.2 million. The gains were the result of same store sales growth of around 2.0% combined with the further opening of four restaurants, thus bringing the total network of restaurants in Hong Kong to 73 as at 30 June 2012. Moreover, a number of marketing campaigns and tailored product promotions proved highly effective at both maintaining patrons and raising the average amount spent by customers, a particularly significant achievement given that the current economic climate has steadily eroded consumers' confidence.

As at the reporting period, profit attributable to owners of the parent rose by 13.5% year on year to HK\$95.7 million (2011: HK\$84.3 million). If a one-time gain on the disposal of property of around HK\$8.0 million that was recorded in the corresponding period of last year was excluded, profit attributable to owners of the parent would in fact have risen by an exceptional 25.4% year on year. This further substantiates that Tao Heung's operation mode can be highly defensive during poor economic conditions, encompassing the vigorous use of promotions that are balanced by effective cost control measures employed by the management.

It is worth noting that the management has continued to bolster the Tai Cheong Bakery operation with the opening of three outlets during the review period, thus bringing the total store count to 19 as at 30 June 2012. Helping sustain such network growth, along with benefit from lower costs and higher efficiency is a bakery centre that is found in the Tai Po Logistics Centre, which has been operational since January 2011.

## Management Discussion and Analysis (continued)

### Mainland China operations

The Mainland China economy has expanded at a reduced pace since the European sovereign-debt crisis and lacklustre employment and economic performance in the United States have led to lower demand for Chinese-made goods. With the manufacturing industry directly impacted, this has in turn shaken consumer confidence and resultantly impaired the food catering sector. The environment is further deteriorated by the stringent control over monetary policy and the restriction on public fund spending recently. Nevertheless, with the Group principally catering for middle to high income households, as well as the fast growing banquet and wedding markets, the Mainland China operation was still able to post healthy business growth.

As at the end of the reporting period, revenue from the Mainland China operations topped HK\$483.8 million up 16.7% year on year, which was due to the further strengthening of the Group's presence in the country. The Group enjoyed continuous revenue growth after opening one new restaurant during the period together with two restaurants opened in the second half of last year. What is more, there was an overall increase in customer traffic, which clearly suggests consumers' appreciation for Tao Heung's reasonable prices, food safety and quality, as well as their confidence in the Tao Heung brand. Underscoring such confidence, the Group recently placed fourth in the "2011 China Top 100 Catering Enterprises" ranking, which reflects the Group's strengths in financial performance, brand recognition and network coverage.

As at 30 June 2012, EBITDA rose by 18.4% year on year to HK\$111.7 million. If the poultry farm that was acquired in 2011 was excluded, EBITDA would have risen by 20.2% to HK\$106.2 million. Profit attributable to owners of the parent rose moderately to HK\$43.1 million (2011: HK\$41.0 million). This slower profit growth was partly due to an increase in cost of labour, which has risen by roughly 7.2% resulting from current labour legislation and insurance requirements, together with the result of increased investment in business expansion that has been in full swing since the second half last year. The management is confident that such hindrance on profit growth will be temporary, given that the operation of new stores normally requires one to two years' time to mature. As at 30 June 2012, the Mainland China operation consists of 18 restaurants with eight more restaurants anticipated to be added by the end of 2012.

### Logistics centres

The Group has been able to increase its reliance on the Tai Po and Dongguan logistics centres as both facilities have continued to quickly expand production, realise greater economies of scale and deliver more food supply to the Group's restaurants, while ensuring the highest food safety.

As at 30 June 2012, output at the Dongguan Logistics Centre reached 860 tonnes per month and is on target to top 1,000 tonnes per month by year end. In respect of the Tai Po Logistics Centre, which only commenced operation in January 2011, the facility is already achieving a monthly output of 930 tonnes and is also targeted to reach an output of 1,000 tonnes per month by the end of 2012. The centres supply pre-packaged and festive products such as dim sums and mooncakes, and enable the Group to explore more peripheral business opportunities, as well as open the way to potential future business expansion.

### Peripheral business

The peripheral business continued to provide a steady source of revenue to the Group, amounting to HK\$100.0 million, which is a year-on-year rise of 12.4%. With respect to the poultry farm that was acquired in January 2011, the asset has ensured the Group is provided with a stable and safe supply of high quality pork and poultry, while also contributing revenue of HK\$31.0 million during the reporting period.

With the festive food business continuing to perform particularly well, the management will renew focus on developing the festive food business in line with its network expansion. Also, the management will continue to steadily explore any new opportunities in airline catering and the pre-packaged and chilled food business.

## Management Discussion and Analysis (continued)

### Financial resources and liquidity

The Group maintained a strong financial and liquidity position for the six months ended 30 June 2012. The total assets increased by 2.3% to approximately HK\$1,995.4 million (31 December 2011: approximately HK\$1,950.9 million) while the total equity increased by 5.6% to approximately HK\$1,473.3 million (31 December 2011: approximately HK\$1,395.7 million).

As at 30 June 2012, the Group had the cash and cash equivalents amounting to approximately HK\$281.9 million. After deducting the total interest-bearing bank borrowings of HK\$32.5 million, the Group had a net cash surplus position of approximately HK\$249.4 million. In view of its cash-rich position, the Group continues to explore any investment or business development opportunities to deploy its cash resources with an aim to enhance the Group's profitability and values to its shareholders.

As at 30 June 2012, the Group's total interest-bearing bank borrowings were increased to approximately HK\$32.5 million (31 December 2011: approximately HK\$21.9 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings and finance lease payables divided by the total equity attributable to the owners of the Company) was increased to 2.3% (31 December 2011: 1.6%).

### Capital expenditure

Capital expenditure for the six months ended 30 June 2012 amounted to approximately HK\$250.3 million (2011: HK\$147.1 million) and the capital commitments as at 30 June 2012 amounted to HK\$64.4 million (31 December 2011: HK\$76.4 million). The capital expenditure was mainly for the renovation of the Group's new and existing restaurants and Tai Po Logistics Centre. It also include the purchase of property in Mainland China for the Group's restaurant operation. The capital commitment was mainly related to the renovation of the Group's new restaurants in Mainland China.

### Pledge of assets

As at 30 June 2012, the Group pledged its bank deposits of approximately HK\$12.5 million, leasehold land and buildings of approximately HK\$55.9 million and investment properties of approximately HK\$7.3 million to secure the banking facilities granted to the Group.

### Contingent liabilities

As at 30 June 2012, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$28.4 million (31 December 2011: approximately HK\$26.2 million).

### Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2012 were mostly denominated in Hong Kong Dollars ("HK\$") and Renminbi ("RMB"). The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of the controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against HK\$ may have impact on the Group results.

The Group currently does not maintain a foreign currency hedging policy. However, the management would monitor the foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

## Management Discussion and Analysis (continued)

### Human resources

As at 30 June 2012, the Group had 8,750 employees. In order to attract and retain the high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 30 June 2012, there are 4,730,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Also, as at 30 June 2012, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

### Prospects

The upcoming financial period is expected to remain challenging as the economic environment in Hong Kong and Mainland China will continue to be affected by global volatility. Nevertheless, the Group has proven time after time its ability to weather the storm and emerge even stronger. With both vertical and horizontal integration efforts continuously pursued over the years, and continuing to be bolstered, the Group has the strength and ability to sustain growth over the long term.

In respect of horizontal integration, Tao Heung presently operates 74 restaurants in Hong Kong and 20 restaurants in Mainland China, together with 19 Tai Cheong Bakery outlets, and remains on track to meeting its goal of establishing a nationwide catering network of 200 outlets, offering a variety of Chinese cuisine and baked goods by 2017. By the end of 2012, the Group aims to add another one restaurant and two bakery outlets in Hong Kong and six in the Mainland China. In the case of the latter, this will involve bridging a third new market outside Guangdong Province – Wuhan. Together with the two new shops opened in Nanning and Shenyang in August which have enjoyed a warm reception by local customers, the Group is confident in its successful expansion within Mainland China. Since the Group will open a number of new restaurants in the near future, the growth in profit attributable to owners of the parent within the PRC segment is expected to slip in the short term due to the initial investment involved though the management anticipates this contraction to be only temporary. Moreover, based on the Group's impressive track record of restaurant openings, the new investments will promptly become part of Tao Heung's ever growing revenue stream.

Ongoing consolidation of its market presence in Hong Kong and Mainland China clearly highlights the shrewdness of management to operate two state-of-the-art logistics centres in the form of the Dongguan and Tai Po facilities. Both have been essential for containing costs and supporting business growth, while they are also vital for preserving Tao Heung's excellent reputation for food hygiene and safety, representing issues that Mainland China consumers are becoming increasingly concerned with.

Further helping preserve the Group's reputation for healthy, quality dining is its poultry farm in China. While being the cornerstone of vertical integration efforts, the farm also ensures that the quality of the Group's pork and poultry supply is maintained at a high standard. The farm as well highlights the Group's foresight into food chain integration, and this competitive advantage will duly be leveraged towards exploring additional vertical integration efforts. Correspondingly, with the trial run of an animal feed factory having been completed, the management will explore the opportunity of creating an animal feed production and distribution business, representing potentially another revenue contributor in the coming years.

## Management Discussion and Analysis (continued)

Fully mindful that all facets of operation must constantly be examined and refined for the benefit of the whole Group, the management sees automation as one area that requires further integration. While inflationary pressure has lessened leading to more stable food prices, ongoing escalation of labour cost, which, while having moderated in Hong Kong, has risen by roughly 7.2% in Mainland China due to government legislation and insurance requirements, represents a real concern. Hence, greater utilisation of technologies such as automated queuing, automated ordering, self-service auto-payment and prepaid cards will be called for to help alleviate such pressure, while also raise efficiency. Besides, the management firmly believes that the introduction of a prepaid card system will help promote the customer loyalty as well as encourage repeat purchases by introducing more privileges to loyal customers. Currently such a system is used by the Group's Guangzhou and Dongguan restaurants and the Shenzhen operation will be adopting the system in September of this year.

Certainly, the Group will continue to actively engage in promotions and marketing efforts – a well-proven practice for sustaining business growth on both sides of the border during economic slowdown. Among the promotions that Tao Heung will employ include an additional dish for just one dollar. The Group's existing powerful purchasing platform facilitates such bundled sales promotions, which at the same time strengthens its bargaining power on purchasing through direct consumption of raw materials. Special offers to draw customers during non-peak hours will be pursued as well, all of which will further boost customer traffic and raise income levels.

With the ongoing network expansion and satisfactory performance achieved by Tai Cheong bakery business, the management will also direct its efforts on upgrading the existing bakery centre at Tai Po Logistics Centre so as to improve the product quality and cope with future expansion.

As Tao Heung is now beginning a new decade, the Group has never been stronger. By capitalising on its breadth of attributes, ranging from vertical and horizontal integration capabilities, exceptional logistics support and high-quality food to effective promotions and inspiring leadership from a well-seasoned management team, Tao Heung looks forwards to realising further growth in the coming financial period, and in the years ahead.

# Other Information

## Dividend

In acknowledging continuous support from our shareholders, the Board have declared the payment of an interim dividend of HK6.20 cents per ordinary share in respect of the year ending 31 December 2012, payable on 11 October 2012 to shareholders whose names appear on the register of members of the Company on 28 September 2012.

## Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 3 October 2012 to Friday, 5 October 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 28 September 2012.

## Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2012, the interests and short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

| Name of Directors              | Notes       | Number of ordinary shares (long position) |                  |                     |                    | Total interests | % of total issued shares |
|--------------------------------|-------------|---|------------------|---------------------|--------------------|-----------------|--------------------------|
|                                |             | Personal interests                        | Family interests | Corporate interests | Equity derivatives |                 |                          |
| <b>Executive Directors</b>     |             |   |                  |                     |                    |                 |                          |
| Mr. Chung Wai Ping             | (a) and (d) | –   | 12,174,222       | 377,715,689         | –                  | 389,889,911     | 38.16                    |
| Mr. Wong Ka Wing               | (b)         | 5,522,679                                 | –                | 103,283,124         | –                  | 108,805,803     | 10.65                    |
| Mr. Chung Ming Fat             | (c)         | –   | –                | 56,795,068          | –                  | 56,795,068      | 5.56                     |
| Mr. Leung Yiu Chun             |             | 800,000                                   | –                | –                   | –                  | 800,000         | 0.08                     |
| Ms. Wong Fun Ching             |             | 800,000                                   | –                | –                   | –                  | 800,000         | 0.08                     |
| Mr. Ho Yuen Wah                |             | 2,000,000                                 | –                | –                   | –                  | 2,000,000       | 0.20                     |
| <b>Non-executive Directors</b> |             |   |                  |                     |                    |                 |                          |
| Mr. Fong Siu Kwong             |             | 180,000                                   | –                | –                   | –                  | 180,000         | 0.02                     |

Notes:

- 377,715,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.
- Of these shares, 5,522,679 shares were held by Mr. Wong Ka Wing personally and 103,283,124 shares were held by Joy Mount Investments Limited, which is wholly-owned by Mr. Wong Ka Wing.
- These shares were held by Whole Gain Holdings Limited, which is wholly-owned by Mr. Chung Ming Fat.
- 12,174,222 shares were held by Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping.

Saved as disclosed above, as at 30 June 2012, none of the directors or chief executives had registered an interest or short position in the share of underlying shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

## Other Information (continued)

### Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2012, the interests and short positions of every persons, other than directors or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

| Name of Shareholder                | Notes | Number of ordinary shares<br>(long position) |                             |
|------------------------------------|-------|--|-----------------------------|
|                                    |       | Directly<br>beneficially<br>owned            | % of total<br>issued shares |
| Billion Era International Limited  | (a)   | 377,715,689                                  | 36.97                       |
| Joy Mount Investments Limited      | (b)   | 103,283,124                                  | 10.11                       |
| Perfect Plan International Limited | (c)   | 102,053,976                                  | 9.99                        |
| Value Partners Limited             | (d)   | 78,277,000                                   | 7.67                        |
| Whole Gain Holdings Limited        | (e)   | 56,795,068                                   | 5.56                        |

Notes:

- (a) These shares were wholly-owned by Billion Era International Limited, which is beneficially owned by Mr. Chung Wai Ping.
- (b) These shares were wholly-owned by Joy Mount Investments Limited, which is beneficially owned by Mr. Wong Ka Wing.
- (c) These shares were wholly-owned by Perfect Plan International Limited, which is an indirect wholly-owned subsidiary of Café de Coral Holdings Limited.
- (d) These shares were wholly-owned by Value Partners Limited, which is a wholly-owned subsidiary of Value Partners Group Limited.
- (e) These shares were wholly-owned by Whole Gain Holdings Limited, which is beneficially owned by Mr. Chung Ming Fat.

Save as disclosed above, as at 30 June 2012, the Directors are not aware of any other person (other than the directors or chief executive of the Company) who have the interests or short positions in the shares and underlying shares of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

### Share Option Schemes

#### (a) Pre-IPO Share Option Scheme

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

## Other Information (continued)

At 30 June 2012, there are 4,730,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK\$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive.

Details of the share options outstanding as at 30 June 2012 which have been granted under the Pre-IPO Share Option Scheme are as follows:

| Name                       | Date of Grant | Number of share options       |                           |                             |                  |  | Outstanding at 30 June 2012 |
|----------------------------|---------------|-------------------------------|---------------------------|-----------------------------|------------------|--|-----------------------------|
|                            |               | Outstanding at 1 January 2012 | Granted during the period | Exercised during the period | Lapsed on expiry | Cancelled upon termination of employment |                             |
| <b>Executive Directors</b> |               |                               |                           |                             |                  |  |                             |
| Mr. Leung Yiu Chun         | 9 June 2007   | 320,000                       | –                         | (320,000)                   | –                | –  | –                           |
| Ms. Wong Fun Ching         | 9 June 2007   | 560,000                       | –                         | (560,000)                   | –                | –  | –                           |
| Other employees            | 9 June 2007   | 8,318,000                     | –                         | (3,438,000)                 | –                | (150,000)                                | 4,730,000                   |
|                            |               | 9,198,000                     | –                         | (4,318,000)                 | –                | (150,000)                                | 4,730,000                   |

### (b) Share Option Scheme

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

## Corporate Governance

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

The Company has complied with all the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set forth in Appendix 14 of the Listing Rules throughout the period ended 30 June 2012.



### **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 complied with the required standards as set out in the Code throughout the six months ended 30 June 2012.

### **Purchase, Sale or Redemption of Listed Securities**

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

### **Publication of Interim Results**

The electronic version of this report will be published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.taoheung.com.hk](http://www.taoheung.com.hk)).

### **Appreciation**

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

By order of the Board  
**Chung Wai Ping**  
*Chairman*

Hong Kong, 23 August 2012