稻香集團

# 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

# Contents


2 Corporate Information
3 Financial Highlights

Interim Condensed Consolidated Financial Statements

4 Condensed Consolidated Statement of Profit or Loss
5 Condensed Consolidated Statement of Comprehensive Income
6 Condensed Consolidated Statement of Financial Position
8 Condensed Consolidated Statement of Changes in Equity
9 Condensed Consolidated Statement of Cash Flows
11 Notes to the Condensed Consolidated Financial Statements

25 Management Discussion and Analysis
30 Other Information


# Corporate Information

## Board of Directors

### Executive Directors

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

### Non-executive Directors

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

### Independent non-executive Directors

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)*
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. Ng Yat Cheung *(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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, 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
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

## Principal Auditors

Ernst & Young

## Stock Code

573

## Website

www.taoheung.com.hk

# Financial Highlights

| Key Financial Ratios | Notes | Six months ended 30 June 2019 (Unaudited) HK$'000 | 2018 (Unaudited) HK$'000 | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| **Performance** | | | | |
| Revenue | | **2,027,671** | 2,079,840 | (2.5%) |
| EBITDA | *1* | **196,417** | 188,918 | 4.0% |
| Profit attributable to owners of the parent | | **72,028** | 51,306 | 40.4% |
| Gross profit margin | | **13.0%** | 10.3% | 26.2% |
| Net profit margin | *2* | **3.6%** | 2.5% | 44.0% |
| Per Share Data | | **HK cents** | HK cents | |
| Earnings per share | | | | |
| – Basic | | **7.09** | 5.05 | 40.4% |
| – Dilutive | | **7.09** | 5.05 | 40.4% |
| Interim dividend per share | | **6.0** | 5.50 | 9.1% |

| | Notes | 30 June 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Total assets | | **3,186,772** | 2,391,292 | 33.3% |
| Net assets | | **1,650,777** | 1,686,040 | (2.1%) |
| Cash and cash equivalents | | **567,360** | 531,416 | 6.8% |
| Net cash | *3* | **438,660** | 381,749 | 14.9% |
| **Liquidity and Gearing** | | | | |
| Current ratio | *4* | **1.1** | 1.5 | (26.7%) |
| Quick ratio | *5* | **1.0** | 1.3 | (23.1%) |
| Gearing ratio | *6* | **7.9%** | 9.0% | (12.2%) |
| Per Share Data | | **HK cents** | HK cents | |
| Net assets per share | *7* | **162.38** | 165.85 | (2.1%) |
| Net cash per share | *8* | **43.15** | 37.55 | 14.9% |

*Notes:*

1. EBITDA for the period ended 30 June 2019 is a non-HKFRS financial measurement which is calculated by excluding the effect of the depreciation of right-of-use assets and interest on lease liabilities recognised upon the adoption of HKFRS 16 *Leases*.
2. Net profit margin is calculated as net profit attributable to owners of the parent divided by revenue.
3. Net cash is cash and cash equivalents less interest-bearing bank borrowings.
4. Current ratio is calculated as current assets divided by current liabilities.
5. Quick ratio is calculated as current assets less inventories divided by current liabilities.
6. Gearing ratio is calculated as interest-bearing bank borrowings divided by total equity attributable to owners of the parent.
7. Net assets per share is calculated based on the number of 1,016,611,000 shares (31 December 2018: 1,016,611,000 shares).
8. Net cash per share is calculated based on the number of 1,016,611,000 shares (31 December 2018: 1,016,611,000 shares).

# Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

## 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 2019 together with comparative figures for the corresponding period in 2018. These interim condensed consolidated financial statements for the six months ended 30 June 2019 have not been audited, but have been reviewed by the Audit Committee of the Company.

| | Notes | Six months ended 30 June 2019 (Unaudited) HK$'000 | 2018 (Unaudited) HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **2,027,671** | 2,079,840 |
| Cost of sales | | **(1,764,140)** | (1,865,611) |
| Gross profit | | **263,531** | 214,229 |
| Other income and gains, net | 5 | **14,357** | 13,304 |
| Selling and distribution expenses | | **(49,373)** | (52,831) |
| Administrative expenses | | **(101,012)** | (93,084) |
| Other expenses | 7 | **(12,822)** | (19,825) |
| Finance costs | 6 | **(22,163)** | (1,433) |
| Share of profits and losses of associates | | **(24)** | 782 |
| PROFIT BEFORE TAX | 7 | **92,494** | 61,142 |
| Income tax expense | 8 | **(23,087)** | (19,447) |
| PROFIT FOR THE PERIOD | | **69,407** | 41,695 |
| Attributable to: | | | |
| Owners of the parent | | **72,028** | 51,306 |
| Non-controlling interests | | **(2,621)** | (9,611) |
| | | **69,407** | 41,695 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| – Basic | 10 | **HK7.09 cents** | HK5.05 cents |
| – Diluted | 10 | **HK7.09 cents** | HK5.05 cents |

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **PROFIT FOR THE PERIOD** | **69,407** | 41,695 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **3,566** | 42,626 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **72,973** | 84,321 |
| Attributable to: | | |
| Owners of the parent | **75,527** | 93,751 |
| Non-controlling interests | **(2,554)** | (9,430) |
| | **72,973** | 84,321 |

# Condensed Consolidated Statement of Financial Position

As at 30 June 2019

| | Notes | 30 June 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | **982,008** | 1,031,396 |
| Prepaid land lease payments | | **–** | 86,543 |
| Right-of-use assets | 3 | **900,475** | – |
| Investment properties | 11 | **29,400** | 29,400 |
| Goodwill | | **38,934** | 38,883 |
| Other intangible asset | | **–** | 884 |
| Interests in associates | | **10,440** | 11,964 |
| Deferred tax assets | | **111,530** | 100,221 |
| Rental deposits | | **98,108** | 97,495 |
| Deposits for purchases of items of property, plant and equipment | | **79,756** | 82,884 |
| Total non-current assets | | **2,250,651** | 1,479,670 |
| **CURRENT ASSETS** | | | |
| Inventories | | **139,691** | 149,745 |
| Biological assets | | **15** | 235 |
| Trade receivables | 12 | **52,788** | 42,800 |
| Prepayments, deposits and other receivables | | **151,698** | 167,244 |
| Tax recoverable | | **10,870** | 6,529 |
| Pledged deposits | | **13,699** | 13,653 |
| Cash and cash equivalents | | **567,360** | 531,416 |
| Total current assets | | **936,121** | 911,622 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 13 | **118,097** | 135,177 |
| Other payables and accruals | | **297,265** | 296,443 |
| Interest-bearing bank borrowings | | **128,700** | 149,667 |
| Lease liabilities | 3 | **251,599** | – |
| Finance lease payable | | **–** | 176 |
| Tax payable | | **23,666** | 16,932 |
| Total current liabilities | | **819,327** | 598,395 |
| **NET CURRENT ASSETS** | | **116,794** | 313,227 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,367,445** | 1,792,897 |

## Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2019

| | Notes | 30 June 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Other payables and accruals | | **13,223** | 82,400 |
| Lease liabilities | *3* | **678,837** | – |
| Finance lease payable | | **–** | 397 |
| Due to non-controlling shareholders of subsidiaries | | **7,607** | 7,581 |
| Deferred tax liabilities | | **17,001** | 16,479 |
| Total non-current liabilities | | **716,668** | 106,857 |
| Net assets | | **1,650,777** | 1,686,040 |
| **EQUITY** | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | | **101,661** | 101,661 |
| Reserves | | **1,533,250** | 1,565,445 |
| | | **1,634,911** | 1,667,106 |
| Non-controlling interests | | **15,866** | 18,934 |
| Total equity | | **1,650,777** | 1,686,040 |

# Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2019

| | | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Issued capital (Unaudited) HK$'000 | Share premium (Unaudited) HK$'000 | Capital reserve (Unaudited) HK$'000 | Other reserve (Unaudited) HK$'000 | Share option reserve (Unaudited) HK$'000 | Capital redemption reserve (Unaudited) HK$'000 | Exchange fluctuation reserve (Unaudited) HK$'000 | Retained profits (Unaudited) HK$'000 | Total (Unaudited) HK$'000 | Non-controlling interests (Unaudited) HK$'000 | Total equity (Unaudited) HK$'000 |
| At 1 January 2018 | | 101,661 | 326,624 | 110,748 | 11,056 | 6,446 | 509 | 996 | 1,185,904 | 1,743,944 | (2,707) | 1,741,237 |
| Profit for the period | | – | – | – | – | – | – | – | 51,306 | 51,306 | (9,611) | 41,695 |
| Other comprehensive income for the period: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | 42,445 | – | 42,445 | 181 | 42,626 |
| Total comprehensive income for the period | | – | – | – | – | – | – | 42,445 | 51,306 | 93,751 | (9,430) | 84,321 |
| Equity-settled share option arrangement | | – | – | – | – | 1,034 | – | – | – | 1,034 | – | 1,034 |
| Transfer of share option reserve upon the forfeiture of share options | | – | – | – | – | (210) | – | – | 210 | – | – | – |
| Acquisition of non-controlling interest | | – | – | – | (30,829) | – | – | – | – | (30,829) | 30,825 | (4) |
| Final 2017 dividend | | – | – | – | – | – | – | – | (60,997) | (60,997) | – | (60,997) |
| At 30 June 2018 | | 101,661 | 326,624 | 110,748 | (19,773) | 7,270 | 509 | 43,441 | 1,176,423 | 1,746,903 | 18,688 | 1,765,591 |
| At 31 December 2018 (audited) | | **101,661** | **326,624** | **110,748** | **(19,773)** | **7,656** | **509** | **(46,362)** | **1,186,043** | **1,667,106** | **18,934** | **1,686,040** |
| Impact of adoption of HKFRS 16 | *3* | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(46,725)** | **(46,725)** | **(514)** | **(47,239)** |
| At 1 January 2019 (restated) (unaudited) | | **101,661** | **326,624** | **110,748** | **(19,773)** | **7,656** | **509** | **(46,362)** | **1,139,318** | **1,620,381** | **18,420** | **1,638,801** |
| Profit for the period | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **72,028** | **72,028** | **(2,621)** | **69,407** |
| Other comprehensive income for the period: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | **–** | **–** | **–** | **–** | **–** | **–** | **3,499** | **–** | **3,499** | **67** | **3,566** |
| Total comprehensive income for the period | | **–** | **–** | **–** | **–** | **–** | **–** | **3,499** | **72,028** | **75,527** | **(2,554)** | **72,973** |
| Transfer of share option reserve upon the forfeiture of share options | | **–** | **–** | **–** | **–** | **(615)** | **–** | **–** | **615** | **–** | **–** | **–** |
| Final 2018 dividend | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(60,997)** | **(60,997)** | **–** | **(60,997)** |
| At 30 June 2019 | | **101,661** | **326,624*** | **110,748*** | **(19,773)*** | **7,041*** | **509*** | **(42,863)*** | **1,150,964*** | **1,634,911** | **15,866** | **1,650,777** |

* These reserve accounts comprise the consolidated reserves of HK$1,533,250,000 (31 December 2018: HK$1,565,445,000) in the condensed consolidated statement of financial position.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

| | Notes | Six months ended 30 June 2019 (Unaudited) HK$'000 | 2018 (Unaudited) HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **92,494** | 61,142 |
| Adjustments for: | | | |
| Interest income | *5* | **(5,623)** | (4,005) |
| Gain on disposal of items of property, plant and equipment, net | *5* | **(50)** | – |
| Finance costs | *6* | **22,163** | 1,433 |
| Write-off of items of property, plant and equipment | *7* | **352** | 1,164 |
| Impairment of items of property, plant and equipment | *7* | **10,777** | 16,256 |
| Depreciation of items of property, plant and equipment | *7* | **102,420** | 125,114 |
| Depreciation of right-of-use assets/recognition of prepaid land lease payments | *7* | **152,537** | 1,186 |
| Equity-settled share option expense | *7* | **–** | 1,034 |
| Amortisation of other intangible asset | *7* | **40** | 43 |
| Impairment of other intangible asset | *7* | **850** | – |
| Impairment of trade receivables | *7* | **1,195** | 3,569 |
| Share of profits and losses of associates | | **24** | (782) |
| | | **377,179** | 206,154 |
| Increase in rental deposits | | **(496)** | (1,946) |
| Decrease/(increase) in inventories | | **10,317** | (5,579) |
| Decrease in biological assets | | **221** | 9,159 |
| Decrease/(increase) in trade receivables | | **(11,046)** | 6,186 |
| Increase in prepayments, deposits and other receivables | | **(2,832)** | (24,333) |
| Decrease in trade payables | | **(17,322)** | (34,978) |
| Increase in other payables and accruals | | **12,953** | 20,042 |
| Cash generated from operations | | **368,974** | 174,705 |
| Interest paid | | **(1,463)** | (1,421) |
| Hong Kong profits tax paid | | **(5,716)** | (7,430) |
| Overseas tax paid | | **(10,289)** | (7,140) |
| Net cash flows from operating activities | | **351,506** | 158,714 |

## Condensed Consolidated Statement of Cash Flows (continued)

For the six months ended 30 June 2019

| | Notes | Six months ended 30 June 2019 (Unaudited) HK$'000 | 2018 (Unaudited) HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(51,751)** | (57,981) |
| Deposits paid for purchases of items of property, plant and equipment | | **(7,790)** | (19,434) |
| Proceeds from disposal of items of property, plant and equipment | | **70** | – |
| Dividend received from an associate | | **1,500** | – |
| Repayment of loan from an associate | | **–** | 850 |
| Interest received | | **5,623** | 4,005 |
| Decrease in non-pledged time deposits with original maturity of more than three months when acquired | | **9,546** | – |
| Net cash flows used in investing activities | | **(42,802)** | (72,560) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **103,000** | 108,000 |
| Repayment of bank loans | | **(123,967)** | (167,251) |
| Capital element of finance lease rental payments | | **–** | (80) |
| Interest element of finance lease rental payments | | **–** | (12) |
| Capital element of lease liabilities | | **(161,031)** | – |
| Interest element of lease liabilities | | **(20,700)** | – |
| Dividends paid | | **(60,997)** | (60,997) |
| Acquisition of a non-controlling interest | | **–** | (4) |
| Net cash flows used in financing activities | | **(263,695)** | (120,344) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **45,009** | (34,190) |
| Cash and cash equivalents at beginning of period | | **461,232** | 530,471 |
| Effect of foreign exchange rate changes, net | | **295** | 11,146 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | **506,536** | 507,427 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **506,536** | 432,436 |
| Non-pledged time deposit with original maturity of less than three months when acquired | | **–** | 74,991 |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | | **506,536** | 507,427 |
| Non-pledged time deposit with original maturity of more than three months when acquired | | **60,824** | – |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | | **567,360** | 507,427 |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

## 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 and other items related to restaurant operations

– provision of poultry farm operations

## 2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 (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.

These 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 2018.

## 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 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective 1 January 2019.

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| Annual Improvements *2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases* ("HKFRS 16"), the new and revised standards are not relevant to the preparation of the Group's Unaudited Interim Financial Statements. The nature and impact of the new and revised HKFRSs are described below:

### HKFRS 16 *Leases*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

*New definition of a lease*

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

*As a lessee – Leases previously classified as operating leases*

**Nature of the effect of adoption of HKFRS 16**

The Group has lease contracts for certain of its office premises, restaurants and bakery properties and equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset).

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### HKFRS 16 *Leases* (Continued)

**Impacts on transition**

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease asset recognised previously under finance lease of HK$557,000 that was reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on previous assessment of whether leases are onerous immediately before the date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

| | Increase/ (decrease) (Unaudited) HK$'000 |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 942,562 |
| Decrease in property, plant and equipment | (1,125) |
| Decrease in prepaid land lease payments | (88,754) |
| Decrease in prepayments, deposits and other receivables | (16,456) |
| Increase in deferred tax assets | 15,388 |
| Increase in total assets | 851,615 |
| **Liabilities** | |
| Increase in lease liabilities | 981,102 |
| Decrease in other payables and accruals | (81,675) |
| Decrease in finance lease payable | (573) |
| Increase in total liabilities | 898,854 |
| **Equity** | |
| Decrease in retained earnings | (46,725) |
| Decrease in non-controlling interests | (514) |
| Decrease in total equity | (47,239) |

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### HKFRS 16 *Leases* (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

| | (Unaudited) HK$'000 |
|---|---|
| Operating lease commitments as at 31 December 2018 | 1,182,866 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 4.22% |
| Discounted operating lease commitments as at 1 January 2019 | 980,529 |
| Add: Commitments relating to leases previously classified as finance leases | 573 |
| Lease liabilities as at 1 January 2019 | 981,102 |

*Summary of new accounting policies*

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

*Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

*Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### HKFRS 16 *Leases* (Continued)

***Summary of new accounting policies*** (Continued)

*Lease liabilities* (Continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

### Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

### Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

| | Right-of-use assets | | | | |
|---|---|---|---|---|---|
| | Leasehold land (Unaudited) HK$'000 | Building (Unaudited) HK$'000 | Equipment (Unaudited) HK$'000 | Total (Unaudited) HK$'000 | Lease liabilities (Unaudited) HK$'000 |
| **As at 1 January 2019** | 88,754 | 853,251 | 557 | 942,562 | 981,102 |
| Additions | – | 108,643 | – | 108,643 | 108,643 |
| Depreciation | (1,112) | (151,348) | (77) | (152,537) | – |
| Interest expense | – | – | – | – | 20,700 |
| Payments | – | – | – | – | (181,731) |
| Exchange realignment | 304 | 1,501 | 2 | 1,807 | 1,722 |
| **As at 30 June 2019** | 87,946 | 812,047 | 482 | 900,475 | 930,436* |

* Lease liabilities as at 30 June 2019 included in current and non-current liabilities amounting to HK$251,599,000 and HK$678,837,000, respectively.

## 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 2019 and 2018 and certain non-current asset information as at 30 June 2019 and 31 December 2018, by geographic area.

(a) *Revenue from external customers*

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Hong Kong | **1,252,132** | 1,283,180 |
| Mainland China | **775,539** | 796,660 |
| | **2,027,671** | 2,079,840 |

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

(b) *Non-current assets*

| | **30 June** | 31 December |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Audited) |
| | **HK$'000** | HK$'000 |
| Hong Kong | **863,272** | 446,223 |
| Mainland China | **1,177,741** | 835,731 |
| | **2,041,013** | 1,281,954 |

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 | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **REVENUE FROM CONTRACTS WITH CUSTOMERS** | | |
| Restaurant and bakery operations | **1,866,167** | 1,937,386 |
| Sale of food and other items | **100,755** | 88,189 |
| Poultry farm operations | **60,749** | 54,265 |
| | **2,027,671** | 2,079,840 |

### Disaggregated revenue information

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **Geographical markets** | | |
| Hong Kong | **1,252,132** | 1,283,180 |
| Mainland China | **775,539** | 796,660 |
| Total revenue from contracts with customers | **2,027,671** | 2,079,840 |
| **Timing of revenue recognition** | | |
| At a point in time and total revenue from contracts with customers | **2,027,671** | 2,079,840 |

## 5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **OTHER INCOME AND GAINS, NET** | | |
| Bank interest income | **5,623** | 4,005 |
| Gross rental income | **1,135** | 2,880 |
| Sponsorship income and government grants | **2,559** | 3,455 |
| Commission income | **2,051** | 1,086 |
| Management fee income | **771** | 501 |
| Gain on disposal of items of property, plant and equipment, net | **50** | – |
| Others | **2,168** | 1,377 |
| | **14,357** | 13,304 |

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on bank loans | **1,463** | 1,421 |
| Interest on a finance lease | **–** | 12 |
| Interest on lease liabilities | **20,700** | – |
| | **22,163** | 1,433 |

## 7. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **652,109** | 695,062 |
| Depreciation of items of property, plant and equipment* | **102,420** | 125,114 |
| Depreciation of right-of-use assets* | **152,537** | – |
| Amortisation of prepaid land lease payments* | **–** | 1,186 |
| Amortisation of other intangible asset | **40** | 43 |
| Employee benefit expense (including directors' remuneration)*: | | |
| Salaries and bonuses | **558,661** | 563,405 |
| Retirement benefit scheme contributions (defined contribution schemes) | **38,204** | 40,404 |
| Equity-settled share option expense | **–** | 1,034 |
| | **596,865** | 604,843 |
| Lease payments under operating leases*: | | |
| Minimum lease payments | **–** | 186,798 |
| Contingent rents | **9,690** | 1,339 |
| | **9,690** | 188,137 |
| Foreign exchange differences, net | **968** | (161) |
| Impairment of trade receivables# | **1,195** | 3,569 |
| Write-off of items of property, plant and equipment | **352** | 1,164 |
| Impairment of items of property, plant and equipment# | **10,777** | 16,256 |
| Impairment of other intangible asset# | **850** | – |

* The cost of sales for the period ended 30 June 2019 amounting to HK$1,764,140,000 included depreciation of items of property, plant and equipment of HK$94,655,000, depreciation of right-of-use assets of HK$152,340,000, employee benefit expense of HK$548,697,000 and operating lease rentals of HK$9,690,000.

The cost of sales for the period ended 30 June 2018 amounting to HK$1,865,611,000 included depreciation of items of property, plant and equipment of HK$117,309,000, amortisation of prepaid land lease payments of HK$1,186,000, employee benefit expense of HK$553,091,000 and operating lease rentals of HK$187,981,000.

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

## 8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Current – Hong Kong | | |
| Charge for the period | **8,806** | 10,939 |
| Current – Mainland China | **9,561** | 9,969 |
| Deferred | **4,720** | (1,461) |
| Total tax charge for the period | **23,087** | 19,447 |

## 9. DIVIDEND

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Proposed interim – HK6.00 cents (six months ended 30 June 2018: HK5.50 cents) per ordinary share | **60,997** | 55,914 |

The proposed dividend for the period has been approved at the Company's board meeting held on 22 August 2019.

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

The calculation of the basic earnings per share amount is based on the unaudited consolidated profit for the six months ended 30 June 2019 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,611,000 (period ended 30 June 2018: 1,016,611,000) in issue during the period.

For the six months ended 30 June 2019 and 2018, no adjustment was made to the basic earnings per share amount in respect of a dilution as the share options had no dilutive effect on the basic earnings per share.

## 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation | **72,028** | 51,306 |

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation | **1,016,611,000** | 1,016,611,000 |

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

During the six months ended 30 June 2019, additions of items of property, plant and equipment amounted to HK$51,751,000 (six months ended 30 June 2018: HK$57,981,000).

As at 30 June 2019, leasehold land and buildings with a total carrying amount of HK$49,837,000 (31 December 2018: HK$50,270,000) were pledged to secure banking facilities granted to the Group.

As at 30 June 2019, investment properties with a total carrying amount of HK$20,500,000 (31 December 2018: HK$20,500,000) were pledged to secure banking facilities granted to the Group.

## 12. TRADE RECEIVABLES

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | **HK$'000** | HK$'000 |
| Trade receivables | **56,129** | 44,946 |
| Impairment | **(3,341)** | (2,146) |
| | **52,788** | 42,800 |

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.

## 12. TRADE RECEIVABLES (Continued)

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 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 |
|---|---|---|
| Within 1 month | **35,937** | 30,472 |
| 1 to 3 months | **14,855** | 6,180 |
| Over 3 months | **1,996** | 6,148 |
| | **52,788** | 42,800 |

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 30 June 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 |
|---|---|---|
| At the beginning of period/year | **2,146** | – |
| Impairment losses *(note 7)* | **1,195** | 2,146 |
| At the end of period/year | **3,341** | 2,146 |

## 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 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 |
|---|---|---|
| Within 1 month | **106,680** | 124,546 |
| 1 to 2 months | **8,553** | 5,964 |
| 2 to 3 months | **840** | 1,137 |
| Over 3 months | **2,024** | 3,530 |
| | **118,097** | 135,177 |

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

## 14. CONTINGENT LIABILITIES

| | 30 June 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 |
|---|---|---|
| Bank guarantees given in lieu of utility and property rental deposits | **28,448** | 18,670 |

## 15. COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

| | 30 June 2019 (Unaudited) HK$'000 | 31 December 2018 (Audited) HK$'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Leasehold improvements, furniture, fixtures and equipment | **2,979** | 17,811 |

## 16. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in the Unaudited Interim Financial Statements, the Group had the following transactions with related parties during the period:

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Notes* | 2019 (Unaudited) HK$'000 | 2018 (Unaudited) HK$'000 |
| Rental expense to a related party | *(i)* | **24** | 24 |
| Management fee from associates | *(ii)* | **467** | 501 |
| Sales of food and other operating items to associates | *(iii)* | **2,935** | 1,888 |

*Notes:*

(i) 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 (2018: HK$4,000).

(ii) The management fee was charged to associates based on 1 to 2% (2018: 3%) of gross receipt.

(iii) Sales of food and other operating items to associates were charged based on mutually agreed terms and conditions.

## 16. RELATED PARTY TRANSACTIONS (Continued)

### (b) Compensation of key management personnel of the Group

| | Six months ended 30 June | |
|---|---|---|
| | **2019 (Unaudited) HK$'000** | 2018 (Unaudited) HK$'000 |
| Short term employee benefits | **3,580** | 3,403 |
| Post-employment benefits | **43** | 42 |
| Equity-settled share option expense | **–** | 60 |
| | **3,623** | 3,505 |

The transactions as disclosed in note (a)(i) above also constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## 17. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

These Unaudited Interim Financial Statements were approved and authorised for issue by the Board on 22 August 2019.

# Management Discussion and Analysis

## BUSINESS REVIEW

The Board hereby announces the interim results of the Group for the six months ended 30 June 2019. During the latest financial period, the Group has continued with consolidation efforts, which are scheduled for completion by the end of the financial year. It has also persisted in the diversification of the Group's various brands by way of collaborating with relevant business partners through joint ventures and other schemes. In addition, the renovation of restaurants of its various brands have been an effective means of attracting the patronage of customers. As a result of these efforts, as well as effective cost control and operational enhancement, the performance of the Group's Hong Kong and Mainland operations have performed encouragingly.

### Financial Results

As at the six months ended 30 June 2019, the Group recorded total revenue of HK$2,027.7 million (2018: HK$2,079.8 million), a modest decline of 2.5% year-on-year resulting from the ongoing renovation of several restaurants during the review period. Gross profit margin has nonetheless increased moderately owing to strict cost controls implemented by the management. Profit attributable to owners of the parent achieved a double-digit increase of 40.4% to HK$72.0 million (2018: HK$51.3 million), which was attributed to the strategic consolidation of stores combined with the successful tailoring of menus to attract different tiers of customers.

The Board has proposed an interim dividend of HK6.00 cents per share for the six months ended 30 June 2019, which represents a dividend payout ratio of 84.7%.

### Hong Kong Operations

The Hong Kong operations contributed revenue totalling HK$1,252.1 million (2018: HK$1,283.2 million) during the review period. Profit attributable to owners of the parent at HK$45.1 million (2018: HK$48.2 million).

Despite challenging business conditions, the Hong Kong operations were able to attract its target consumers through proven marketing strategies, such as the "Half-priced dim-sum" promotion that is offered during morning hours. Yet further means of winning customers has been the renovation of restaurants as part of its consolidation efforts complemented by the introduction of revised menus, which are aimed at enhancing the overall dining experience and diversifying its customer base respectively. Such efforts have also allowed the Group to achieve its goal of attracting a younger demographic as a new revenue stream. Consequently, an increase in customer traffic was recorded, and more significantly, a rise in same-store sales of 1.8% and increase in average spend per head. To support long-term development of the Hong Kong operations as well as raise efficiency in term of procurement, the Group has started to migrate the enhanced purchasing system successfully implemented in Mainland China to Hong Kong including the adoption of the tendering process, identifying new suppliers and market data analysis aiming for the best price and quality of ingredients to be purchased, as well as better inventory control leading to higher overall operational efficiency.

Also to enhance efficiency is the aforementioned consolidation process which continued in earnest during the review period, with the final round set to conclude in the second half year involving the rightsizing or renovation of five restaurants. The focus will be on operations that attract high-consumption clientele who are more appreciative of a sophisticated ambience. As of 30 June 2019, the Group has 55 restaurants (2018: 60) in Hong Kong.

## Hong Kong Operations (Continued)

In diversifying the Group's portfolio, it has collaborated with and introduced different brands to Hong Kong, including Du Hsiao Yueh from Taiwan, which has two restaurants in operation that are located in prime locations in the city, with one more restaurant set to open in the second half year. Yet another means of offering popular flavours of Taiwan to the people of Hong Kong is Han Lin Tea Room (翰林茶館), which is the originator of the Bubble Milk Tea. All of the establishments serve as testament to the Group's commitment to business diversification and broadening its revenue streams.

As regards the Tai Cheong bakery business, efforts at revitalising its brand image have at the same time helped to reinforce its strong position in both Hong Kong and overseas. Furthermore, its expansion in the region now extends beyond Singapore, to a new beachhead in Taiwan. As for the Mainland China market, the Group has undergone a feasibility study for opening in major transportation hubs with our business partner. As at the review period, there are a total of 19 Tai Cheong bakeries in operation (2018: 18), with two more to open in the second half year. The Group's focus will continue to be on establishing bakeries in prime, trendy locations such as the new shopping mall V Walk and Peak Galleria.

## Mainland China Operations

The Mainland China operations recorded revenue of HK$775.6 million (2018: HK$796.6 million) as at the close of the review period. Profit attributable to owners increased notably to HK$26.9 million (2018: HK$3.1 million).

During the review period, the Mainland China operations achieved a turnaround, with same store sales growth of 3.3% recorded. The Group's strategy early on to consolidate operations underpinned the business improvement despite challenging consumption sentiment. The combination of restaurant renovations and revised menus has proved particularly effective at attracting younger customers; increasing traffic from this important demographic. Furthermore, after the successful implementation of an enhanced purchasing system proposed by the Consulting Company together with the continuous promotion of ordering and payment via mobile devices have resulted in greater cost management efficiency at the restaurant level. More remarkable through ongoing efforts at central kitchen operations and frontline workflow re-engineering, the integration of cooking disciplines pertaining of kitchen, dim sum and roasted items ("廚, 點, 味") become feasible which redefined the traditional Chinese restaurant back-end activities. Hence the productivity of our restaurants has been raised effectively.

The three integrated complexes have also played unique roles in facilitating the operations development; raising brand equity among middle and high-income families by offering a diverse range of products and services. Such complexes have resulted in more collaborative opportunities as well, involving B2B, B2C and OEM related activities, building ties with e-commerce and catering businesses. The Group has also linked up with different supermarket chain's operators and caterers, which will contribute to the wholesale business, and will be fully supported by the Group's factory in Dongguan. As for the e-commerce operation, its partnership with popular online platforms Tmall.com and JD.com has resulted in the significant growth of the Group's branded products, with the sales of packaged food increasing by 43% during the review period. The Group's takeout and delivery service also enable a wide spectrum of customers to enjoy its products, which it achieves through ongoing ties with Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了嗎).

As at 30 June 2019, the Group has 45 restaurants (2018: 46 restaurants) in operation in Mainland China. It also has 27 Bakerz 180 outlets (2018: 26 outlets) in the country. During the period, the Group has sought to control costs of the bakery operation by fully utilising the logistics centre. Having already provided a competitive edge to the wholesale business, the centre will support efforts at broadening revenue streams by tapping online sales channels and collaborating with caterers and supermarkets.

## Peripheral Business

The supermarket business has continued to deliver encouraging results, accounting for a significant portion of peripheral business revenue. Also, by drawing from experience gained from the production of OEM products for the Hong Kong market, the Group's private label products have started to account for a larger proportion of turnover. To ensure that such products continue to gain traction, the Group will utilise online sales channels so that they are accessible from major parts of the country.

## Financial resources and liquidity

As at 30 June 2019, the total assets increased by 33.3% to approximately HK$3,186.8 million (31 December 2018: approximately HK$2,391.3 million) while the total equity decreased by 2.1% to approximately HK$1,650.8 million (31 December 2018: approximately HK$1,686.0 million).

As at 30 June 2019, the Group had the cash and cash equivalents amounted to approximately HK$567.4 million. After deducting the total interest-bearing bank borrowings of HK$128.7 million, the Group had a net cash surplus position of approximately HK$438.7 million.

As at 30 June 2019, the Group's total interest-bearing bank borrowings were decreased to approximately HK$128.7 million (31 December 2018: approximately HK$149.7 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings divided by the total equity attributable to the owners of the Company) was decreased to 7.9% (31 December 2018: 9.0%).

## Capital expenditure

Capital expenditure for the six months ended 30 June 2019 amounted to approximately HK$51.8 million (period ended 30 June 2018: approximately HK$58.0 million) and the capital commitments as at 30 June 2019 amounted to approximately HK$3.0 million (31 December 2018: approximately HK$17.8 million). The capital expenditure and the capital commitments were mainly for the renovation of the Group's existing restaurants and logistics centres.

## Pledge of assets

As at 30 June 2019, the Group pledged its bank deposits of approximately HK$13.7 million, leasehold land and buildings of approximately HK$49.8 million and investment properties of approximately HK$20.5 million to secure the banking facilities granted to the Group.

## Contingent liabilities

As at 30 June 2019, 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 2018: approximately HK$18.7 million).

## Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2019 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 2019, the Group had 7,585 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 2019, there are 14,860,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

## Prospects

Despite uncertainty surrounding the global economy, the Group's growth strategy and consolidation efforts have proved to be effectual. The encouraging performance has underscore the importance of preparing for challenges, and that an upturn can be realised even in challenging times.

Going forward in Hong Kong specifically, the Group will continue to employ different development strategies and explore possible collaborations with various restaurants and retail brands. In the case of the former, such strategies will capitalise on the preferences of consumers in their specific market and draw on the latest consumption trends. Central to such strategies will be to consolidate and invigorate core business operations, supported by the delivery of higher quality food and services. As for the latter, the Group will leverage partnerships to drive development of brands and product offerings, reinforce its position in the culinary segment, and offer greater variety of cuisine to suit different demographics and tastes: even opening the way to enter overseas markets.

As for the Mainland China operation, the Group will fully utilise its logistics centre to support its wholesale business as the operation continues to tap opportunities arising from its omnichannel exposure. This also complements the Group's overall aim for the Mainland China operation to capture e-commerce-related opportunities in view of its growing application, and to explore new online platforms to attract customers from across the country. The brick-and-mortar component will also be developed with the opening of restaurants in cities found in the Guangdong-Hong Kong-Macao Greater Bay Area, such as Jiangmen etc., apart from the metropolitan centres such as Shenzhen, Wuhan and Shanghai, where the Group already has a presence.

Looking forward, the management is expecting both Hong Kong and peripheral economy will be enveloped by various kind of uncertainties which create lots of challenges to the catering industry. However, having already placed tremendous effort on diversifying its product portfolio and optimising all areas of operation, the Group is heartened that such labours have begun to bear fruit. Constituting important competitive edges, they will duly be utilised by the Group to grasp new opportunities, thus further build growth momentum that leads to new revenue streams and optimal returns for shareholders.

# Other Information

## Dividend

In acknowledging continuous support from our shareholders, the Directors have declared the payment of an interim dividend of HK6.00 cents per ordinary share in respect of the year ending 31 December 2019, payable on 11 October 2019 to shareholders whose names appear on the register of members of the Company on 30 September 2019.

## Closure of Register of Members

The register of members of the Company will be closed on Wednesday, 2 October 2019 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 Monday, 30 September 2019.

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

As at 30 June 2019, the interests and short positions of the Directors in the share capital and underlying shares and debentures 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 required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise 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:

## Long positions in ordinary shares of the Company:

| Name of Directors | *Notes* | Directly beneficially owned | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | Equity derivatives | Total | Percentage of the Company's share capital |
|---|---|---|---|---|---|---|---|---|
| | | Number of shares held, capacity and nature of interest | | | | | | |
| **Executive Directors** | | | | | | | | |
| Mr. Chung Wai Ping | *(a) and (b)* | – | 12,174,222 | – | 404,952,689 | – | 417,126,911 | 41.03 |
| Mr. Wong Ka Wing | *(c)* | 5,522,679 | – | 103,283,124 | – | – | 108,805,803 | 10.70 |
| Mr. Leung Yiu Chun | *(d)* | 800,000 | – | – | – | 600,000 | 1,400,000 | 0.14 |
| Mr. Ho Yuen Wah | *(d)* | 2,000,000 | – | – | – | 400,000 | 2,400,000 | 0.24 |
| **Non-executive Director** | | | | | | | | |
| Mr. Fong Siu Kwong | | 180,000 | – | – | – | – | 180,000 | 0.02 |

*Notes:*

(a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited ("Tin Tao") which in turn is wholly-owned by BNP Paribas Corporate Services Pte. Ltd ("BPCSPL"), a company incorporated in Singapore. BPCSPL is holding the shares in Tin Tao as nominee for BNP Paribas Singapore Trust Corporation Limited ("BPSTCL") as trustees for a discretionary trust, the discretionary objects of which include Mr. Chung Wai Ping and certain members of his family. For the purposes of the SFO, Mr. Chung is the Settlor of this trust. The ultimate holding company for BPSTCL is BNP Paribas SA.

(b) 12,174,222 shares were held by Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping.

(c) 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.

(d) These represented outstanding options granted to Directors under the Share Option Scheme to subscribe for shares of the Company, further details of which are set forth under the section headed "Share Option Schemes" to this report.

Saved as disclosed above, as at 30 June 2019, none of the directors and chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2019, the interests and short positions of each of the persons, other than the 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:

| | | Number of ordinary shares (long position) | | | |
|---|---|---|---|---|---|
| Name of Shareholder | *Notes* | Directly beneficially owned | Through controlled corporation | Total | % of total issued share |
| Billion Era International Limited | *(a)* | 404,952,689 | – | 404,952,689 | 39.83 |
| Tin Tao Investments Limited | *(a)* | – | 404,952,689 | 404,952,689 | 39.83 |
| BNP Paribas Corporate Services Pte. Ltd | *(a)* | – | 404,952,689 | 404,952,689 | 39.83 |
| BNP Paribas Singapore Trust Corporation Limited | *(a)* | – | 404,952,689 | 404,952,689 | 39.83 |
| Joy Mount Investments Limited | *(b)* | 103,283,124 | – | 103,283,124 | 10.16 |
| Perfect Plan International Limited | *(c)* | 102,053,976 | – | 102,053,976 | 10.04 |
| Whole Gain Holdings Limited | | 56,795,068 | – | 56,795,068 | 5.59 |

*Notes:*

(a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited ("Tin Tao") which in turn is wholly-owned by BNP Paribas Corporate Services Pte. Ltd ("BPCSPL"), a company incorporated in Singapore. BPCSPL is holding the shares in Tin Tao as nominee for BNP Paribas Singapore Trust Corporation Limited ("BPSTCL") as trustees for a discretionary trust, the discretionary objects of which include Mr. Chung Wai Ping and certain members of his family. For the purposes of the SFO, Mr. Chung is the Settlor of this trust. The ultimate holding company for BPSTCL is BNP Paribas SA.

(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.

Save as disclosed above, as at 30 June 2019, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

## Share Option Schemes

### (a) Share Option Scheme

Pursuant to a share option scheme adopted by the Company on 9 June 2007 (the "Share Option Scheme"), the Company has granted 20,130,000 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 Share Option Scheme. Share options granted under the Share Option Scheme shall vest in 2 tranches, as to 50% and 50% on 1 December 2017 and 1 December 2018, respectively, subject to the fulfilment of certain vesting conditions and are exercisable at HK$2.08 per share and the holders of the said share options may exercise the share options during the period from 2 December 2017 to 1 December 2026, both days inclusive.

Share Option Scheme expired on 8 June 2017 and no further options could be granted under the Share Option Scheme thereafter. However, the share options granted under the Share Option Scheme which have not been fully exercised remain valid until such time when such share options are fully exercised or have lapsed and will continue to be administered under the rules of the Share Option Scheme.

Details of the share options outstanding as at 30 June 2019 which have been granted under the Share Option Scheme are as follows:

| | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Date of grant | Outstanding at 1 January 2019 | Granted during the year | Exercised during the year | Lapsed on expiry | Forfeited upon termination of employment | Outstanding at 30 June 2019 |
| **Executive Directors** | | | | | | | |
| Mr. Leung Yiu Chun | 2 December 2016 | 600,000 | – | – | – | – | 600,000 |
| Mr. Ho Yuen Wah | 2 December 2016 | 400,000 | – | – | – | – | 400,000 |
| **Connected Person** | | | | | | | |
| Mr. Chung Wai Leung | 2 December 2016 | 300,000 | – | – | – | – | 300,000 |
| Other employees | 2 December 2016 | 14,860,000 | – | – | – | (1,300,000) | 13,560,000 |
| **Total** | | 16,160,000 | – | – | – | (1,300,000) | 14,860,000 |

### (b) 2017 Share Option Scheme

On 25 May 2017, the Company adopted a new share option scheme (the "2017 Share Option Scheme"). Pursuant to the 2017 Share Option Scheme, 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 highest 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 2017 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 2017 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 six months ended 30 June 2019.

## 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 2019.

## Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2019, 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) and the website of the Company (www.taoheung.com.hk).

## Appreciation

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

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

Hong Kong, 22 August 2019