



Tao Heung Holdings Limited
稻香控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 573

2022

INTERIM REPORT



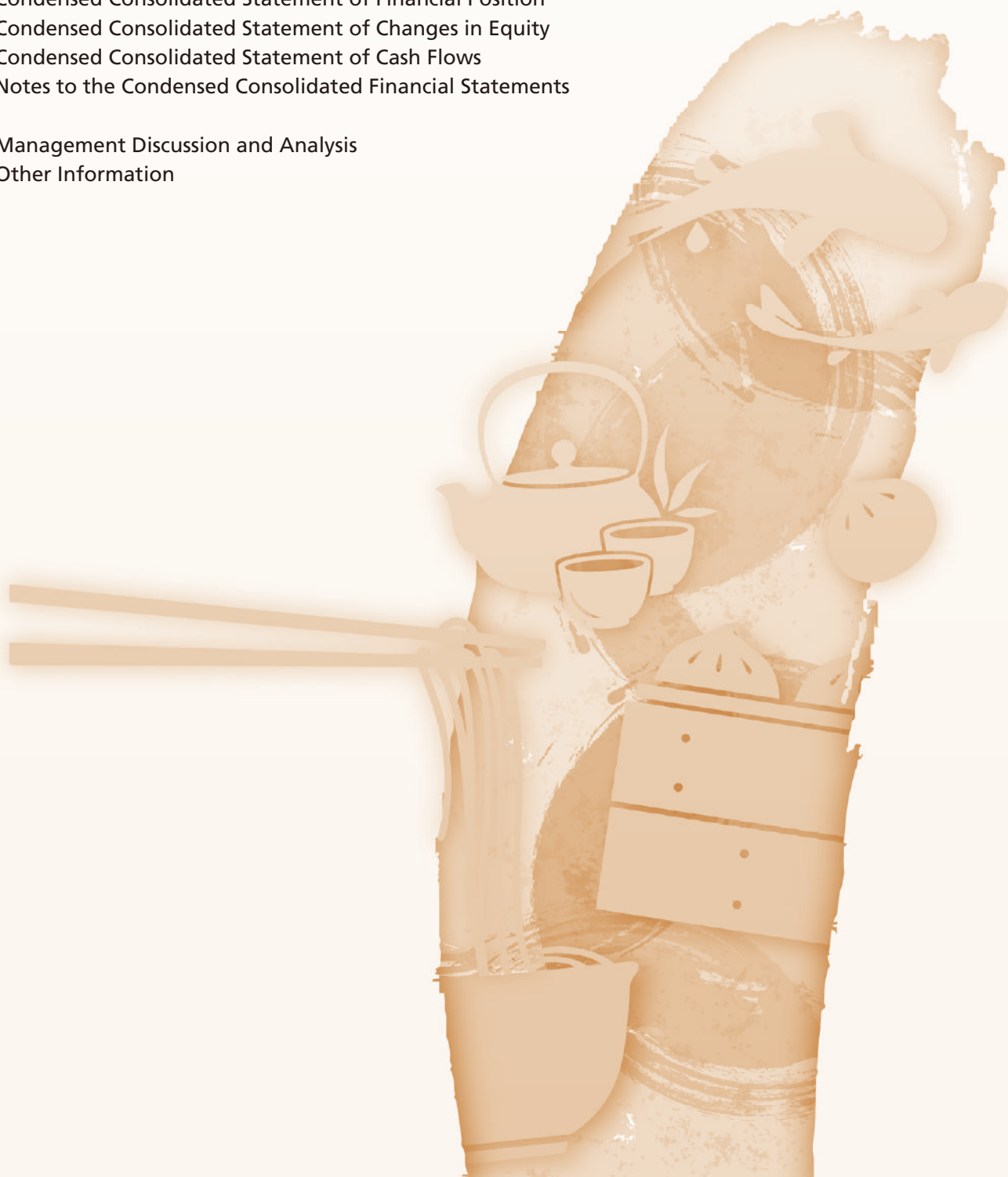
* For identification purposes only

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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

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

Ms. Tsang Wing Ka

Authorised Representatives

Mr. Chung Chun Fung
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

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586, Gardenia Court, Camana Bay
Grand Cayman KY1-1100, 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
BNP Paribas, Hong Kong Branch
China CITIC Bank Corporation Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

Principal Auditors

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

Stock Code

573

Website

www.taoheung.com.hk



FINANCIAL HIGHLIGHTS

Key Financial Ratios	Notes	Six months ended 30 June		% Change Increase/ (decrease)
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	
Performance				
Revenue		1,058,425	1,301,377	(18.7%)
Loss attributable to owners of the parent		(101,392)	(20,639)	391.3%
Gross profit/(loss) margin		(4.1%)	5.7%	(171.9%)
Net loss margin	1	(9.6%)	(1.6%)	500.0%
Per Share Data				
		HK cents	HK cents	
Loss per share				
– Basic		(10.00)	(2.03)	392.6%
– Dilutive		(10.00)	(2.03)	392.6%
Proposed interim dividend per share		3.0	3.0	0.0%
Balance Sheet				
		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000	% Change Increase/ (Decrease)
Total assets		2,618,192	2,750,789	(4.8%)
Net assets		1,375,487	1,546,211	(11.0%)
Cash and cash equivalents		413,969	457,925	(9.6%)
Net cash	2	182,469	296,258	(38.4%)
Liquidity and Gearing				
Current ratio	3	0.9	1.1	(18.2%)
Quick ratio	4	0.8	0.9	(11.1%)
Gearing ratio	5	17.1%	10.6%	61.3%
Per Share Data				
		HK cents	HK cents	
Net assets per share	6	135.60	152.13	(10.9%)
Net cash per share	7	17.99	29.15	(38.3%)

Notes:

- Net loss margin is calculated as net loss 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 interest-bearing bank borrowings divided by total equity attributable to owners of the parent.
- Net assets per share is calculated based on the number of 1,014,348,000 issued shares (31 December 2021: 1,016,348,000 issued shares).
- Net cash per share is calculated based on the number of 1,014,348,000 issued shares (31 December 2021: 1,016,348,000 issued shares).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of Tao Heung Holdings Limited (the "Company"), together with its subsidiaries (collectively the "Group"), hereby announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2022 together with comparative figures for the corresponding period in 2021. These interim condensed consolidated financial statements for the six months ended 30 June 2022 have not been audited, but have been reviewed by the Audit Committee of the Company.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(98,283)	(19,572)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(42,011)	35,181
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(140,294)	15,609
Attributable to:		
Owners of the parent	(142,558)	13,841
Non-controlling interests	2,264	1,768
	(140,294)	15,609

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the parent											
	Issued capital	Share premium	Treasury shares	Capital reserve	Other reserve	Share option reserve	Capital redemption reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	101,661	326,624	(220)	110,748	(19,773)	4,926	509	1,607	1,046,155	1,572,237	22,602	1,594,839
Profit/(loss) for the period	-	-	-	-	-	-	-	-	(20,639)	(20,639)	1,067	(19,572)
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	34,480	-	34,480	701	35,181
Total comprehensive income for the period	-	-	-	-	-	-	-	34,480	(20,639)	13,841	1,768	15,609
Acquisition of non-controlling interests	-	-	-	-	(1,682)	-	-	-	-	(1,682)	(671)	(2,353)
Transfer of share option reserve upon the forfeiture of share options	-	-	-	-	-	(454)	-	-	454	-	-	-
Shares cancelled	(26)	(194)	220	-	-	-	-	-	-	-	-	-
Final 2020 dividend (note 9)	-	-	-	-	-	-	-	-	(30,490)	(30,490)	-	(30,490)
At 30 June 2021	101,635	326,430*	-	110,748*	(21,455)*	4,472*	509*	36,087*	995,480*	1,553,906	23,699	1,577,605
At 1 January 2022	101,635	326,430	(1,779)	110,748	(21,455)	4,207	509	43,669	964,662	1,528,626	17,585	1,546,211
Profit/(loss) for the period	-	-	-	-	-	-	-	-	(101,392)	(101,392)	3,109	(98,283)
Other comprehensive loss for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(41,166)	-	(41,166)	(845)	(42,011)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	(41,166)	(101,392)	(142,558)	2,264	(140,294)
Transfer of share option reserve upon the forfeiture of share options	-	-	-	-	-	(166)	-	-	166	-	-	-
Shares cancelled	(200)	(1,579)	1,779	-	-	-	-	-	-	-	-	-
Final 2021 dividend (note 9)	-	-	-	-	-	-	-	-	(30,430)	(30,430)	-	(30,430)
At 30 June 2022	101,435	324,851*	-	110,748*	(21,455)*	4,041*	509*	2,503*	833,006*	1,355,638	19,849	1,375,487

* These reserve accounts comprise the consolidated reserves of HK\$1,254,203,000 (31 December 2021: HK\$1,426,991,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(115,243)	(18,292)
Adjustments for:			
Interest income	5	(3,142)	(4,657)
Gain on disposal of items of property, plant and equipment, net	5	–	(1)
Gain on termination of leases	5	(7,212)	(6,949)
Finance costs	6	12,639	16,040
Write-off of items of property, plant and equipment	7	1,300	331
Impairment of items of property, plant and equipment	7	7,397	963
Impairment of right-of-use assets	7	8,700	2,680
Depreciation of items of property, plant and equipment	7	80,991	83,857
Depreciation of right-of-use assets	7	112,866	119,490
Impairment of trade receivables	7	1,828	79
COVID-19 related rent concessions from lessors	7	(14,044)	(8,664)
Share of profits of associates		(1,605)	(4,183)
		84,475	180,694
Increase in rental deposits		(9,999)	(4,474)
Decrease in inventories		25,275	29,841
Decrease/(increase) in trade receivables		8,036	(6,930)
Decrease/(increase) in prepayments, deposits and other receivables		(1,332)	12,419
Decrease in trade payables		(18,776)	(10,368)
Increase/(decrease) in other payables and accruals		11,031	(9,751)
Cash generated from operations		98,710	191,431
Interest paid		(1,292)	(1,603)
Hong Kong profits tax refunded		–	4,817
Overseas tax paid		(3,332)	(5,656)
Net cash flows from operating activities		94,086	188,989

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(50,384)	(45,393)
Deposits paid for purchases of items of property, plant and equipment	(3,582)	(18,538)
Proceeds from disposal of items of property, plant and equipment	–	618
Payment for purchase of other financial assets	(1,000)	–
Dividend from an associate	4,147	2,829
Interest received	3,142	4,657
Increase in non-pledged time deposits with original maturity of more than three months when acquired	(155)	(176)
Net cash flows used in investing activities	(47,832)	(56,003)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	178,000	87,000
Repayment of bank loans	(108,167)	(72,167)
Principal portion of lease payments	(120,993)	(123,298)
Interest element of lease payments	(11,347)	(14,437)
Dividends paid	(30,430)	(30,490)
Acquisition of non-controlling interests	–	(2,353)
Net cash flows used in financing activities	(92,937)	(155,745)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(46,683)	(22,759)
Cash and cash equivalents at beginning of period	393,148	500,441
Effect of foreign exchange rate changes, net	4,948	8,281
CASH AND CASH EQUIVALENTS AT END OF PERIOD	351,413	485,963
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	351,413	485,963
Non-pledged time deposit with original maturity of more than three months when acquired	62,556	63,590
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	413,969	549,553

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 (the “Unaudited Interim Financial Statements”) have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

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 2021.

2.2 BASIS OF PRESENTATION

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Unaudited Interim Financial Statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendment to HKFRS 3
Amendment to HKAS 16
Amendment to HKAS 37
*Annual Improvements to HKFRSs
2018-2020*

Reference to the Conceptual Framework
Property, Plant and Equipment: Proceeds before Intended Use
Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying
HKFRS 16, and HKAS 41

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
 - HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

4. OPERATING SEGMENT INFORMATION

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

Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2022 and 2021 and certain non-current asset information as at 30 June 2022 and 31 December 2021, by geographical area.

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Restaurant and bakery operations	879,378	1,156,084
Sale of food and other items	112,380	101,407
Poultry farm operations	66,667	43,886
	1,058,425	1,301,377

Disaggregated revenue information

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Geographical markets		
Hong Kong	505,647	637,099
Mainland China	552,778	664,278
Total revenue from contracts with customers	1,058,425	1,301,377
Timing of revenue recognition		
At a point in time and total revenue from contracts with customers	1,058,425	1,301,377

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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

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

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

* Government grants mainly included subsidies granted by The Government of the Hong Kong Special Administrative Region under the anti-epidemic fund and various government grants received by certain subsidiaries in connection with setting up or closure of certain facilities at a poultry farm and a logistics centre. Certain grants are credited to a deferred income account and are released to the statement of profit or loss over the useful lives of the relevant facilities. There are no unfulfilled conditions or other contingencies attaching to the government grants recognised.

6. FINANCE COSTS

An analysis of finance costs is as follows:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Cost of inventories sold	401,075	454,290
Depreciation of items of property, plant and equipment*	80,991	83,857
Depreciation of right-of-use assets*	112,866	119,490
Employee benefit expense (including directors' remuneration)*:		
Salaries and bonuses	328,400	355,876
Retirement benefit scheme contributions (defined contribution schemes)	28,289	28,067
	356,689	383,943
Lease payments*:		
Lease payments not included in the measurement of lease liabilities	488	4,070
COVID-19 related rent concessions from lessors	(14,044)	(8,664)
	(13,556)	(4,594)
Foreign exchange differences, net	4,893	(1,483)
Impairment of trade receivables#	1,828	79
Write-off of items of property, plant and equipment#	1,300	331
Impairment of items of property, plant and equipment#	7,397	963
Impairment of right-of-use assets#	8,700	2,680
Reversal of unutilised provision#	–	(4,100)

* The cost of sales for the six months ended 30 June 2022 amounting to HK\$1,101,449,000 (six months ended 30 June 2021: HK\$1,227,823,000) included depreciation of items of property, plant and equipment of HK\$77,039,000 (six months ended 30 June 2021: HK\$79,648,000), depreciation of right-of-use assets of HK\$112,756,000 (six months ended 30 June 2021: HK\$119,381,000), employee benefit expense of HK\$311,431,000 (six months ended 30 June 2021: HK\$339,285,000), lease payments not included in the measurement of lease liabilities of HK\$488,000 (six months ended 30 June 2021: HK\$4,070,000) and COVID-19 related rent concessions from lessors of HK\$14,044,000 (six months ended 30 June 2021: HK\$8,664,000).

Included in "Other expenses, net" in the condensed consolidated statement of profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (six months ended 30 June 2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	–	1,479
Overprovision in the prior period	(10)	–
Current – Mainland China	173	4,337
Deferred	(17,123)	(4,536)
Total tax charge/(credit) for the period	(16,960)	1,280

9. DIVIDEND

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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

The calculation of the basic loss per share amount is based on the unaudited loss for the six months ended 30 June 2022 attributable to ordinary equity holders of the parent of HK\$101,392,000 (six months ended 30 June 2021: HK\$20,639,000), and the weighted average number of ordinary shares of 1,014,348,000 (six months ended 30 June 2021: 1,016,348,000) in issue during the period.

For the six months ended 30 June 2022 and 2021, no adjustment was made to the basic loss per share amount in respect of a dilution as the share options had no dilutive effect on the basic loss per share.

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

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	(101,392)	(20,639)
	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	1,014,348,000	1,016,348,000

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

12. TRADE RECEIVABLES

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

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

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

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

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
At the beginning of period/year	3,815	3,687
Impairment losses (note 7)	1,828	128
At the end of period/year	5,643	3,815

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

13. TRADE PAYABLES

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

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

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

14. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	25,144	23,668

15. COMMITMENTS

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Contracted but not provided for: Leasehold improvements, furniture, fixtures and equipment	8,354	11,806

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Short term employee benefits	4,184	3,932
Post-employment benefits	76	77
	4,260	4,009

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of trade receivables, financial assets included in prepayments, deposits and other receivables, pledged deposits, cash and cash equivalents, trade payables, current portion of financial liabilities included in other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee once a year for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The other investment is an unlisted equity investment. In the opinion of the directors, its fair value approximates to its carrying amount as at 30 June 2022.

The fair values of rental deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2022 were assessed to be insignificant. In the opinion of the directors, their carrying amounts are not significantly different from their respective fair values.

18. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

These Unaudited Interim Financial Statements were approved and authorised for issue by the Board on 23 August 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Board hereby announces the interim results of the Group for the six months ended 30 June 2022 (the “period”). During the Period, the COVID-19 pandemic continued to impact on the economy of Mainland China and Hong Kong. Since March 2022, travel restrictions and lockdowns imposed in major cities in Mainland China due to outbreaks of more contagious COVID-19 variants. Some of our restaurants located in Shanghai & Guangdong province were temporarily closed and/or suspended dine-in services for the period from March to June 2022. In Hong Kong, the city faced severe headwinds resulting from the fifth wave of the pandemic at the start of 2022, which led the HKSAR government to impose restrictions on evening dining from late-January to the middle of April. The aforementioned developments invariably affected the Group, which included the suspension of Hong Kong operations for 1,363 shop-days (totalling 41 shops), and of Mainland China operations for 1,049 shop-days (totaling 49 shops). In face of multiple challenge, our management team has devised various strategies to strengthen our competitive advantages. Such strategies included revamping the brands of restaurants, advancing digitisation and automation, introducing the new ingredients and menus as well as fully capitalising on various distribution channels. Furthermore, the Group has taken measures to control rental rates, labour cost and other operating costs.

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

Financial Results

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

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

Hong Kong Operations

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong Operations (Continued)

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong Operations (Continued)

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

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

Mainland China Operations

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Peripheral Businesses

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

Financial resources and liquidity

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

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

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

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

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

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

Capital expenditure

Capital expenditure for the six months ended 30 June 2022 amounted to approximately HK\$53.9 million (period ended 30 June 2021: approximately HK\$63.9 million) and the capital commitments as at 30 June 2022 amounted to approximately HK\$8.3 million (31 December 2021: approximately HK\$11.8 million). The capital expenditure and the capital commitments were mainly for the renovation of the Group's new and existing restaurants and logistics centres.

Pledge of assets

As at 30 June 2022, the Group pledged its bank deposits of approximately HK\$15.5 million (31 December 2021: approximately HK\$16.0 million), right-of-use assets of approximately HK\$47.2 million (31 December 2021: approximately HK\$47.7 million) and buildings of approximately HK\$29.6 million (31 December 2021: approximately HK\$30.2 million) and investment properties of approximately HK\$20.5 million (31 December 2021: approximately HK\$20.5 million) to secure the banking facilities granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

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

Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2022 were mostly denominated in Hong Kong Dollars ("HK\$") and Renminbi ("RMB").

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of the controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against HK\$ may have impact on the Group results.

The Group currently does not maintain a foreign currency hedging policy. However, the management monitors the foreign exchange exposure and arranges foreign exchange forward contracts to minimise foreign currency exposure when appropriate.

Human resources

As at 30 June 2022, the Group had 5,430 employees. In order to attract and retain the high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted share option schemes, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 30 June 2022, there are 8,530,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

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

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

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

OTHER INFORMATION

Dividend

In acknowledging continuous support from our shareholders, the Directors have declared the payment of an interim dividend of HK3.00 cents per ordinary share in respect of the year ending 31 December 2022, payable on Wednesday, 19 October 2022 to shareholders whose names appear on the register of members of the Company on Friday, 7 October 2022.

Closure of Register of Members

The register of members of the Company will be closed on Monday, 10 October 2022 during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 7 October 2022.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2022, 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	Number of shares held, capacity and nature of interest					Total	Percentage of the Company's share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Equity derivatives		
Executive Directors								
Mr. Chung Wai Ping	(a) and (b)	2,546,000	12,174,222	-	423,434,689	-	438,154,911	43.20
Mr. Wong Ka Wing	(c)	5,522,679	-	103,283,124	-	-	108,805,803	10.73
Mr. Chung Chun Fung		3,000,000	-	-	-	-	3,000,000	0.30
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

Directors' Interests and Short Positions in Shares and Underlying Shares (Continued)

Long positions in ordinary shares of the Company: (Continued)

Notes:

- (a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited ("Tin Tao") which in turn is wholly-owned by Sapphire Skye Holdings Limited ("Sapphire"). Sapphire is holding the shares in Tin Tao as nominee for Zedra Trustees (Singapore) Limited ("Zedra Trustee") 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.
- (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 2022, 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 and Short Positions in Shares and Underlying Shares

As at 30 June 2022, 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 (long position)			% of total issued shares
		Directly beneficially owned	Through controlled corporation	Total	
Billion Era International Limited	(a)	423,434,689	–	423,434,689	41.74
Tin Tao Investments Limited	(a)	–	423,434,689	423,434,689	41.74
Sapphire Skye Holdings Limited	(a)	–	423,434,689	423,434,689	41.74
Zedra Trustees (Singapore) Limited	(a)	–	423,434,689	423,434,689	41.74
Joy Mount Investments Limited	(b)	103,283,124	–	103,283,124	10.18
Perfect Plan International Limited	(c)	102,053,976	–	102,053,976	10.06
Whole Gain Holdings Limited		56,795,068	–	56,795,068	5.60

Notes:

- (a) Billion Era International Limited is wholly-owned by Tin Tao Investments Limited ("Tin Tao") which in turn is wholly-owned by Sapphire Skye Holdings Limited ("Sapphire"). Sapphire is holding the shares in Tin Tao as nominee for Zedra Trustees (Singapore) Limited ("Zedra Trustee") 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.
- (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 whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

OTHER INFORMATION

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

(Continued)

Save as disclosed above, as at 30 June 2022, 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 2022 which have been granted under the Share Option Scheme are as follows:

Name	Date of grant	Number of share options					Outstanding at 30 June 2022
		Outstanding at 1 January 2022	Granted during the year	Exercised during the year	Lapsed on expiry	Forfeited upon termination of employment	
Executive Director							
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	8,180,000	-	-	-	(350,000)	7,830,000
Total		8,880,000	-	-	-	(350,000)	8,530,000

Share Option Schemes (Continued)

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

During the six months ended 30 June 2022, the Company has adopted the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and complied with all applicable code provisions under the Code, save and except for the deviation from the code provision C.2.1 of the Code. Under the code provision C.2.1, the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision C.2.1, i.e., the roles of the Chairman and CEO have not been separated. Considering that Mr. Chung Wai Ping has been operating and managing the Group since its incorporation, the Board believes that it is in the best interest of the Group to have Mr. Chung Wai Ping taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from code provision C.2.1 is appropriate in such circumstance.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 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 2022.

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company’s listed securities.

OTHER INFORMATION

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
Chung Wai Ping
Chairman and Chief Executive Officer

Hong Kong, 23 August 2022