



Interim Report  
2008



 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
5	Interim Condensed Consolidated Financial Statements
5	Condensed Consolidated Income Statement
6	Condensed Consolidated Balance Sheet
8	Condensed Consolidated Statement of Changes in Equity
9	Condensed Consolidated Cash Flow Statement
10	Notes to the Condensed Consolidated Financial Statements
25	Management Discussion and Analysis
29	Other Information



## CORPORATE INFORMATION

**BOARD OF DIRECTORS****Executive Directors**

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

**Non-executive Directors**

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

**Independent non-executive Directors**

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

**COMPANY SECRETARY**

Mr. Leung Yiu Chun *FCCA, FCPA*

**QUALIFIED ACCOUNTANT**

Ms. Tsang Wing Ka *CPA*

**AUTHORISED REPRESENTATIVES**

Mr. Leung Yiu Chun  
 Mr. Ho Yuen Wah

**MEMBERS OF AUDIT COMMITTEE**

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

**MEMBERS OF NOMINATION COMMITTEE**

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

**MEMBERS OF REMUNERATION COMMITTEE**

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

**REGISTERED OFFICE**

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

**PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

No. 13 Au Pui Wan Street, Fo Tan  
 Shatin, New Territories, Hong Kong

**PRINCIPAL SHARE REGISTRAR**

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

**HONG KONG BRANCH SHARE REGISTRAR**

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

**PRINCIPAL BANKERS**

Bank of China (Hong Kong) Limited  
 Bank of East Asia, Limited  
 DBS Bank (Hong Kong) Limited  
 Hang Seng Bank Limited  
 Standard Chartered Bank (Hong Kong) Limited

**PRINCIPAL AUDITORS**

Ernst & Young

**COMPLIANCE ADVISER**

UOB (Asia) Hong Kong Limited

**STOCK CODE**

573

**WEBSITE**

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

## FINANCIAL HIGHLIGHTS

Key Financial Ratios	Notes	Six months ended 30 June		% Change Increase/ (Decrease)
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	
Performance				
Revenue		1,187,476	978,957	21.3%
Profit attributable to equity holders of the Company		94,590	112,059	(15.6%)
Gross profit margin		67.9%	66.6%	2.0%
Net profit margin	1	8.0%	11.4%	(29.8%)
Staff costs to revenue		28.9%	27.6%	4.7%
Lease payments under operating leases in respect of land and buildings to revenue		6.8%	6.5%	4.6%
Per Share Data		HK cents	HK cents	
Earnings per share				
— Basic		9.32	12.78	(27.1%)
— Dilutive		9.32	12.78	(27.1%)
Interim dividend per share	2	6.00	3.25	84.6%
Special interim dividend per share	2	N/A	2.96	N/A
		30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000	% Change Increase/ (Decrease)
Total assets		1,336,140	1,271,529	5.1%
Net assets		1,000,399	931,627	7.4%
Cash and cash equivalents		272,327	459,486	(40.7%)
Net cash	3	213,950	388,293	(44.9%)
Liquidity and Gearing				
Current ratio	4	1.97	2.13	(7.5%)
Quick ratio	5	1.78	1.98	(10.1%)
Gearing ratio	6	0.06	0.08	(25.0%)
Per Share Data		HK cents	HK cents	
Net assets per share	7	98.61	91.83	7.4%
Net cash per share	8	21.09	38.28	(44.9%)

## FINANCIAL HIGHLIGHTS (CONTINUED)

*Notes:*

1. Net profit margin is calculated as net profit attributable to equity holders of the Company divided by revenue.
2. The Interim dividend and special dividend per share for the six months ended 30 June 2007 were calculated based on the number of 1,000,000,000 shares issued at 30 June 2007 plus 14,460,000 shares issued pursuant to the exercise of an over-allotment option on 19 July 2007.
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 total debt (interest-bearing bank borrowings and finance lease payables) divided by total shareholders' equity.
7. Net assets per share is calculated based on the number of 1,014,460,000 shares (2007: 1,000,000,000 shares).
8. Net cash per share is calculated based on the number of 1,014,460,000 shares (2007: 1,000,000,000 shares).

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

## INTERIM RESULTS (UNAUDITED)

The board (the "Board") of directors (the "Directors") of Tao Heung Holdings Limited (the "Company"), together with its subsidiaries (collectively the "Group"), hereby announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2008 together with comparative figures for the corresponding period in 2007. These interim condensed consolidated financial statements for the six months ended 30 June 2008 have not been audited, but have been reviewed by the Audit Committee of the Company.

	Notes	Six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>REVENUE</b>	5	<b>1,187,476</b>	978,957
Other income and gains	5	<b>11,915</b>	41,001
Cost of inventories consumed		<b>(381,315)</b>	(326,646)
Staff costs		<b>(343,204)</b>	(269,810)
Lease payments under operating leases in respect of land and buildings		<b>(81,188)</b>	(64,121)
Depreciation of property, plant and equipment		<b>(59,443)</b>	(38,764)
Recognition of prepaid land lease payments		<b>(250)</b>	(596)
Other expenses		<b>(218,387)</b>	(184,088)
Finance costs	6	<b>(1,177)</b>	(2,769)
Share of profits and losses of associates		<b>28</b>	(10)
<b>PROFIT BEFORE TAX</b>	7	<b>114,455</b>	133,154
Tax	8	<b>(18,290)</b>	(19,941)
<b>PROFIT FOR THE PERIOD</b>		<b>96,165</b>	113,213
Attributable to:			
Equity holders of the Company		<b>94,590</b>	112,059
Minority interests		<b>1,575</b>	1,154
		<b>96,165</b>	113,213
<b>DIVIDENDS</b>	9	<b>60,868</b>	63,000
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
— Basic	10	<b>HK9.32 cents</b>	HK12.78 cents
— Diluted	10	<b>HK9.32 cents</b>	HK12.78 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	504,943	408,552
Prepaid land lease payments		68,560	68,556
Investment properties		15,700	15,700
Goodwill	12	16,827	16,827
Interests in associates		5,099	5,071
Deferred tax assets		35,983	30,291
Rental deposits		51,132	44,683
Deposits for purchases of property, plant and equipment		—	15,497
Pledged deposits	14	15,500	15,290
Financial assets at fair value through profit or loss		39,045	32,871
<b>Total non-current assets</b>		<b>752,789</b>	<b>653,338</b>
<b>CURRENT ASSETS</b>			
Inventories		57,712	42,780
Trade receivables	13	11,493	14,222
Prepayments, deposits and other receivables		60,713	33,740
Financial assets at fair value through profit or loss		175,659	49,136
Due from directors	20(c)	—	2,590
Pledged deposits	14	5,447	16,237
Cash and cash equivalents	14	272,327	459,486
<b>Total current assets</b>		<b>583,351</b>	<b>618,191</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	15	94,162	87,044
Other payables and accruals		150,056	159,600
Interest-bearing bank borrowings	16	20,007	22,825
Finance lease payables		221	368
Due to a related company	20(b)	628	628
Due to a minority shareholder of subsidiaries		2,258	2,258
Tax payable		28,793	17,354
<b>Total current liabilities</b>		<b>296,125</b>	<b>290,077</b>
<b>NET CURRENT ASSETS</b>		<b>287,226</b>	<b>328,114</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,040,015</b>	<b>981,452</b>

## CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2008

	<i>Notes</i>	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	16	38,370	48,368
Finance lease payables		80	178
Deferred tax liabilities		1,166	1,279
<b>Total non-current liabilities</b>		<b>39,616</b>	49,825
<b>Net assets</b>		<b>1,000,399</b>	931,627
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital		101,446	101,446
Reserves		836,331	777,359
Proposed dividends	9	60,868	50,723
<b>Minority interests</b>		<b>998,645</b>	929,528
		<b>1,754</b>	2,099
<b>Total equity</b>		<b>1,000,399</b>	931,627



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the Company											
	Notes	Issued capital	Share premium	Capital reserve	Other reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Proposed dividends	Total	Minority interests	Total equity
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January 2007		1,635	—	110,748	20,356	—	2,285	228,876	—	363,900	770	364,670
Exchange realignment and total income for the period recognised directly in equity		—	—	—	—	—	2,936	—	—	2,936	—	2,936
Profit for the period		—	—	—	—	—	—	112,059	—	112,059	1,154	113,213
Total income and expense for the period		—	—	—	—	—	2,936	112,059	—	114,995	1,154	116,149
Purchase of shares of a subsidiary from the then shareholders of the subsidiary		—	—	—	780	—	—	—	—	780	—	780
Issue of shares under the placing and initial public offering		12,400	381,920	—	—	—	—	—	—	394,320	—	394,320
Capitalisation issue		85,965	(85,965)	—	—	—	—	—	—	—	—	—
Share issue expenses		—	(28,660)	—	—	—	—	—	—	(28,660)	—	(28,660)
Equity-settled share option arrangements		—	—	—	—	388	—	—	—	388	—	388
Dividend paid to a minority shareholder of subsidiaries		—	—	—	—	—	—	—	—	—	(120)	(120)
Proposed special 2007 dividend	9	—	—	—	—	—	—	(30,000)	30,000	—	—	—
Proposed interim 2007 dividend	9	—	—	—	—	—	—	(33,000)	33,000	—	—	—
At 30 June 2007		100,000	267,295	110,748	21,136	388	5,221	277,935	63,000	845,723	1,804	847,527
At 1 January 2008		101,446	310,550	110,748	21,136	5,655	13,811	315,459	50,723	929,528	2,099	931,627
Exchange realignment and total income for the period recognised directly in equity		—	—	—	—	—	20,211	—	—	20,211	—	20,211
Profit for the period		—	—	—	—	—	—	94,590	—	94,590	1,575	96,165
Total income and expense for the period		—	—	—	—	—	20,211	94,590	—	114,801	1,575	116,376
Equity-settled share option arrangements		—	—	—	—	5,039	—	—	—	5,039	—	5,039
Dividend paid to a minority shareholder of subsidiaries		—	—	—	—	—	—	—	—	—	(1,920)	(1,920)
Final 2007 dividend		—	—	—	—	—	—	—	(50,723)	(50,723)	—	(50,723)
Proposed interim 2008 dividend	9	—	—	—	—	—	—	(60,868)	60,868	—	—	—
At 30 June 2008		101,446	310,550*	110,748*	21,136*	10,694*	34,022*	349,181*	60,868	998,645	1,754	1,000,399

\* These reserve accounts comprise the consolidated reserves of the Group amounting to HK\$836,331,000 (31 December 2007: HK\$777,359,000) in the condensed consolidated balance sheet.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2008*

	<i>Note</i>	Six months ended 30 June	
		<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 (Unaudited) HK\$'000
Net cash inflow from operating activities		<b>118,265</b>	126,918
Net cash outflow from investing activities		<b>(243,503)</b>	(102,046)
Net cash inflow/(outflow) from financing activities		<b>(65,726)</b>	360,695
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(190,964)</b>	385,567
Cash and cash equivalents at beginning of period		<b>459,486</b>	137,912
Effect of foreign exchange rate change, net		<b>3,805</b>	163
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>272,327</b>	523,642
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	14	<b>182,238</b>	283,591
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities		<b>90,089</b>	240,051
		<b>272,327</b>	523,642

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with the limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 June 2007. 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. 13 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.

Pursuant to a group reorganisation (the "Reorganisation") to streamline the structure of the Group in preparation for the initial public offering of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 4 June 2007. Further details of the Group's Reorganisation are set out in the Company's listing prospectus dated 15 June 2007 (the "Prospectus").

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

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

### 2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2008 (the "Interim Financial Statements") have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and applicable disclosure requirements of Appendix 16 of the Rules Governing The Listing of Securities in the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### 3. ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of the Interim Financial Statements are consistent with those used in the financial statements of the Group for the year ended 31 December 2007, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations), which are effective for an annual period beginning on or after 1 January 2008. Adoption of these new and revised HKFRSs has had no material effect on these Interim Financial Statements.

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Segment information presented below is by way of the Group's geographical segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The Group's customer-based geographical segments are Hong Kong and Mainland China.

Since over 90% of the Group's revenue and assets relate to the restaurant segment which engages in the provision of food catering services through a chain of restaurants, no further analysis on business segment is presented.

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the six months ended 30 June 2008 and 2007.

	Six months ended 30 June 2008		
	Hong Kong (Unaudited) HK\$'000	Mainland China (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue from external customers	988,168	199,308	1,187,476
Segment results	111,996	3,608	115,604
Finance costs			(1,177)
Share of profits and losses of associates, net	28		28
Profit before tax			114,455
Tax			(18,290)
Profit for the period			96,165
Assets and liabilities			
Segment assets	864,963	430,095	1,295,058
Interests in associates	5,099		5,099
Other unallocated assets			35,983
Total assets			1,336,140
Segment liabilities	165,957	81,147	247,104
Other unallocated liabilities			88,637
Total liabilities			335,741
Other segment information			
Capital expenditure	71,685	44,122	115,807
Depreciation	40,904	18,539	59,443
Recognition of prepaid land lease payments	175	75	250
Write-off of items of property, plant and equipment	59	—	59
Fair value gain on financial assets at fair value through profit or loss, net	1,173	—	1,173

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 4. SEGMENT INFORMATION (CONTINUED)

	Six months ended 30 June 2007		
	Hong Kong (Unaudited) HK\$'000	Mainland China (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue from external customers	854,379	124,578	978,957
Segment results	122,411	13,522	135,933
Finance costs			(2,769)
Share of losses of associates	(10)		(10)
Profit before tax			133,154
Tax			(19,941)
Profit for the period			113,213
Assets and liabilities			
Segment assets	895,678	273,288	1,168,966
Interests in associates	1,261		1,261
Other unallocated assets			26,885
Total assets			1,197,112
Segment liabilities	197,394	32,110	229,504
Other unallocated liabilities			120,081
Total liabilities			349,585
Other segment information			
Capital expenditure	52,266	70,821	123,087
Depreciation	32,309	6,455	38,764
Recognition of prepaid land lease payments	465	131	596
Fair value gain on financial assets at fair value through profit or loss	421	—	421
Gain on disposal of leasehold land and buildings	30,786	—	30,786

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>REVENUE</b>		
Restaurant operations	1,164,347	966,461
Sale of food	23,129	12,496
	<b>1,187,476</b>	<b>978,957</b>
<b>OTHER INCOME AND GAINS</b>		
Bank interest income	3,794	5,252
Dividend income from unlisted investments	200	223
Gross rental income from investment properties	503	611
Sponsorship income	3,517	1,409
Excess over the cost of a business combination	—	1,553
Fair value gains on financial assets at fair value through profit or loss	1,173	421
Gain on disposal of leasehold land and buildings	—	30,786
Others	2,728	746
	<b>11,915</b>	<b>41,001</b>

## 6. FINANCE COSTS

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank loans wholly repayable		
— Within five years	1,144	3,518
— Beyond five years	12	21
Interest on finance leases	21	38
Total interest expense on financial liabilities not at fair value through profit or loss	1,177	3,577
Less: Interest capitalised	—	(808)
	<b>1,177</b>	<b>2,769</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

## 7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Gross rental income from investment properties	(503)	(611)
Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	12	1
Net rental income	(491)	(610)
Employee benefits expense (including directors' remuneration):		
Salaries and bonuses	322,038	257,450
Retirement benefits scheme contributions (defined contribution schemes)	16,127	11,972
Equity-settled share option expenses	5,039	388
	343,204	269,810
Lease payments under operating leases in respect of land and buildings:		
Minimum lease payments	76,852	61,130
Contingent rents	4,336	2,991
	81,188	64,121
Foreign exchange differences, net	(1,855)	125

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 8. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Current — Hong Kong Charge for the period	18,337	16,938
Current — Elsewhere	5,098	3,003
Deferred	(5,145)	—
<b>Total tax charge for the period</b>	<b>18,290</b>	<b>19,941</b>

### 9. DIVIDENDS

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Proposed special — Nil (2007: HK2.96 cents) per ordinary share	—	30,000
Proposed interim — HK6.00 cents (2007: HK3.25 cents) per ordinary share	60,868	33,000
	<b>60,868</b>	<b>63,000</b>

The proposed dividends for the period under review have been approved at the Company's board meeting held on 10 September 2008.

Proposed special dividend and proposed interim dividend per ordinary share for the six months ended 30 June 2007 were calculated based on the number of 1,000,000,000 shares issued as at 30 June 2007 plus 14,460,000 shares issued pursuant to the over-allotment option on 19 July 2007.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the unaudited consolidated profit for the six months ended 30 June 2008 attributable to ordinary equity holders of the Company of HK\$94,590,000 (2007: HK\$112,059,000) and the weighted average number of 1,014,460,000 shares (2007: 876,679,452 shares) in issued during the period under review. In the prior period, the weighted average number of shares was calculated based on the 876,000,000 shares, representing the number of shares of the Company immediately after the capitalisation issue but excluding any shares issued pursuant to the initial public offering, deemed to have been in issue at the beginning of the prior period.

	Six months ended 30 June	
	2008 (Unaudited)	2007 (Unaudited)
Profit attributable to equity holders of the Company	HK\$94,590,000	HK\$112,059,000
Weighted average number of ordinary shares in issue	1,014,460,000	876,679,452
Adjustments for share options	—	41,666
Weighted average number of ordinary shares for diluted earnings per share	1,014,460,000	876,721,118
Diluted earnings per share	HK9.32 cents	HK12.78 cents

Diluted earnings per share amounts equal to basic earnings per share amounts because the employee share options had an anti-dilutive effect on the basic earnings per share for the period and were accordingly ignored in the calculation of diluted earnings per share.

### 11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, additions of property, plant and equipment amounted to HK\$115,807,000 (2007: HK\$123,087,000, excluding property and equipment acquired through a business combination (note 21)). Items of property, plant and equipment with a net book value of HK\$26,250,000 were disposed of by the Group during the six months ended 30 June 2007, resulting in a net gain on disposal of approximately HK\$30,786,000.

As at 30 June 2008, leasehold land and buildings with net book value of HK\$99,571,000 (2007: HK\$101,408,000) were pledged to secure the Group's bank loans and a bank loan facility (note 16).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

## 12. GOODWILL

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Carrying amount at 1 January	16,827	3,718
Acquisition of subsidiaries (note 21)	—	13,109
Carrying amount at end of the period	16,827	16,827

Goodwill is tested for impairment annually or whenever there is any indication of impairment. At 30 June 2008, there was no indication of impairment.

## 13. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Neither past due nor impaired	7,517	10,549
Less than 1 month past due	2,265	1,304
1 to 3 months past due	758	1,224
Over 3 months past due	953	1,145
	11,493	14,222

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 14. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Cash and bank balances	182,238	198,120
Time deposits	111,036	292,893
	<b>293,274</b>	<b>491,013</b>
Less:		
Pledged deposits with original maturity over 3 months but within 1 year for short term bank borrowings	(5,447)	(16,237)
Pledged deposits for a long term bank borrowing	(15,500)	(15,290)
	<b>272,327</b>	<b>459,486</b>

### 15. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 1 month	74,999	78,812
1 to 2 months	10,613	2,092
2 to 3 months	2,334	675
Over 3 months	6,216	5,465
	<b>94,162</b>	<b>87,044</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

## 16. INTEREST-BEARING BANK BORROWINGS

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Current		
Bank loans		
— Secured	20,007	21,115
— Unsecured	—	1,710
	20,007	22,825
Non-current		
Bank loans — secured	38,370	48,368
	58,377	71,193
Analysed into:		
Bank loans repayable:		
Within one year	20,007	22,825
In the second year	18,315	19,027
In the third to fifth years, inclusive	19,537	28,837
Beyond five years	518	504
	58,377	71,193

## Notes:

- (a) Certain of the Group's bank loans and facilities are secured by:
- (i) mortgages over certain of the Group's leasehold land and buildings situated in Hong Kong;
  - (ii) mortgages over certain of the Group's investment properties;
  - (iii) the pledge of certain of the Group's unlisted investments; and
  - (iv) the pledge of certain of the Group's time deposits.
- (b) As at 30 June 2008, the bank loans bear interest at rates ranging from 2.75% to 6.00% per annum (31 December 2007: 4.25% to 7.00% per annum).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

## 17. CONTINGENT LIABILITIES

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	31,712	27,946

## 18. OPERATING LEASE ARRANGEMENTS

## (i) As lessor

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

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	6	76

## (ii) As lessee

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

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	127,257	128,495
In the second to fifth years, inclusive	202,879	195,951
Beyond five years	77,728	50,305
	407,864	374,751

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 18. OPERATING LEASE ARRANGEMENTS (CONTINUED)

#### (ii) As lessee (Continued)

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

### 19. COMMITMENTS

In addition to the operating lease commitments detailed in note 18(ii) above, the Group had the following capital commitments as at the balance sheet date:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Contracted but not provided for:		
Leasehold improvements	6,434	4,212
Machinery and equipment	1,971	796
Building	30,296	—

### 20. RELATED PARTY TRANSACTIONS

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

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

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

		Six months ended 30 June	
	Notes	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Purchases of food and other operating items			
Miracle Time Enterprise Limited ("Miracle Time")	(i) & (ii)	1,816	—
Skybest International Investment			
Enterprise Limited ("Skybest")	(i) & (ii)	2,259	—
Rental expense to a related party	(iii)	24	84

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 20. RELATED PARTY TRANSACTIONS (CONTINUED)

#### (a) Transactions with connected/related parties (Continued)

Notes:

- (i) Both Miracle Time and Skybest are non-wholly owned subsidiaries of the Company and are connected persons of the Company as Café de Coral Holdings Limited, a substantial shareholder (as such term is defined under the Listing Rules) of the Company, currently holds 20% of the issued share capital of Miracle Time and Skybest.
- (ii) The purchase of food and other operating items are charged based on terms and conditions negotiated on an individual basis.
- (iii) The rental expense to a related party, Madam Chan Sai Ying, who is the spouse of Mr. Chung Wai Ping, the beneficial controlling shareholder of the Company, was charged based on mutually agreed terms at a monthly fixed amount of HK\$4,000 (2007: HK\$13,000).

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

#### (b) Balance with a related company

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Amount due to a related company	628	628

The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment.

#### (c) Amounts due from directors

The amounts due from directors at the prior year end date arose from indemnification undertaken by the directors in respect of any liabilities incurred by the PRC Group prior to the Group's acquisition thereof on 1 January 2007 pursuant to the PRC Agreement as defined hereinafter. The amounts were fully settled during the period ended 30 June 2008.

#### (d) Key management compensation

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short term employee benefits	1,609	1,318
Post-employment benefits	31	31
	1,640	1,349

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

## 21. BUSINESS COMBINATIONS

On 1 January 2007, the Group entered into a sale and purchase agreement (the "PRC Agreement") with Messrs. Chung Wai Ping and Chung Ming Fat, the directors and shareholders of the Company, to acquire 100% equity interest in Glory Rainbow International Trading Limited ("Glory Rainbow"), Loyal Sky Holdings Limited ("Loyal Sky"), Skymark Asia Limited ("Skymark") and Sky Rich (China) Limited ("Sky Rich"), together with their subsidiaries (collectively, the "PRC Group") for a total cash consideration of HK\$51,000,000 (the "Acquisition"). The PRC Group is principally engaged in the restaurant operations in Mainland China.

The fair values of the identifiable assets and liabilities of the PRC Group as at the date of the Acquisition which are equivalent to the corresponding carrying amounts immediately before the Acquisition are as follows:

	Loyal Sky	Glory Rainbow	Skymark	Sky Rich	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	3,549	10,451	10,095	2,820	26,915
Deferred tax assets	1,043	1,743	274	1,253	4,313
Inventories	11	28	1,315	1,150	2,504
Trade receivables	189	1,182	78	83	1,532
Prepayments, deposits and other receivables	604	423	809	595	2,431
Due from related companies	—	551	3,758	17,785	22,094
Due from a related party	—	—	556	12	568
Cash and bank balances	3,950	3,371	1,532	866	9,719
Trade payables	(1,763)	(1,525)	(4,393)	(2,602)	(10,283)
Other payables and accruals	(2,368)	(4,344)	(2,054)	(870)	(9,636)
Due to related companies	(2,424)	(4,410)	(728)	(3,024)	(10,586)
Tax payable	(357)	(182)	(273)	—	(812)
Net assets acquired at fair values	2,434	7,288	10,969	18,068	38,759
Goodwill on acquisition (note 12)					13,109
Excess over the cost of a business combination recognised in the income statement					(868)
Satisfied by cash					51,000



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2008

### 21. BUSINESS COMBINATIONS (CONTINUED)

An analysis of the net cashflow of cash and cash equivalents in respect of the Acquisition is as follows:

	HK\$'000
Cash consideration	(51,000)
Cash and bank balances acquired	9,719
Net outflow of cash and cash equivalents in respect of the Acquisition	(41,281)

Since the Acquisition, the PRC Group contributed HK\$98,486,000 to the Group's revenue and HK\$6,922,000 to the consolidated profit for the six months ended 30 June 2008.

### 22. EVENT AFTER THE BALANCE SHEET DATE

There has been no material event subsequent to period end which requires disclosure in this report.

The Board is pleased to announce the Group's unaudited interim results for the six months ended 30 June 2008. The macroeconomic environment has proven to be complex during the period under review, in particular with the sub-prime rate crisis in the United States and global inflationary pressure. Nonetheless, Tao Heung has been able to achieve stable growth in both revenue and earnings which reinforce the Group's ability to capture different opportunities in today's challenging markets. Turnover of the Group was approximately HK\$1,187.5 million, representing a 21.3% year-on-year growth.

Excluding the gain on disposal of office properties of approximately HK\$30.8 million for the same period last year, profit attributable to shareholders from the Group's core business amounted to approximately HK\$94.6 million, representing an increase of 16.4%.

Over the years, Tao Heung has aimed at lowering costs and improving operational efficiency, and has placed significant efforts and substantial capital investment in building its large scale Dongguan Logistics Centre. During the period under review, despite a substantial increase in food costs, the Group has started to see contribution of the Dongguan Logistics Centre with gross margins improving to 67.9% (2007: 66.6%). Empowered by this infrastructure, the Group has been able to expedite its expansion in the Mainland China market and more importantly to combat rising costs effectively which the Directors believe is unmatched by the Groups' competitors in the market.

To enhance the return to our shareholders, I would recommend to the Board to propose an interim dividend of HK6.00 cents per share, representing a distribution of approximately 63% of the Group's profit for the period under review.

## BUSINESS REVIEW

### Hong Kong operations

During the period under review, revenue from the Group's Hong Kong operations increased by 15.7% to approximately HK\$988.2 million. The increase was mainly due to the opening of three new restaurants during the period. As at 30 June 2008, the Group operated a total of 50 restaurants in Hong Kong. Although the Group has not raised its menu prices, same store sales increased by 2.0%, which was mainly attributable to increased customer visits. Gross margin for the period increased to 69.0%, as compared to 67.7% in the same period last year. With the Dongguan Logistics Centre starting to supply food products to Hong Kong on a daily basis from June 2008 onwards, the Group expects overall margin levels to improve further.

Profit attributable to equity holders was approximately HK\$90.2 million. Excluding the gain on disposal of office properties in the same period last year, profit from core operations in Hong Kong increased by 27.2%. Net margin for the period improved to 9.1%, as compared to 8.3% in the same period last year. Quality and value-for-money products and services as well as the ability to control costs through different innovative operational mode such as the deployment of logistics centres and the employment of energy-savings cooking appliances, have been the core attributes to Tao Heung's success in Hong Kong. The management is confident towards the Group's Hong Kong operations in the long term.

## Mainland China operations

### A. Restaurants operations

With continuous network expansion progressing as planned, the Group's Mainland China revenue surged by 54.8% to approximately HK\$192.9 million, representing 16.3% of the Group's total turnover. Such impressive growth was mainly due to the four new restaurants opened during the period under review. The Group opened its first Dongguan restaurant, in addition to those in Guangzhou and Shenzhen, boosting the total number of restaurants in Mainland China to 11 as at the end of June 2008.

During the period under review, gross profit margin was 63.2%, increasing from 59.3% in the first half of 2007. Profit attributable to equity holders grew by 32.6% to approximately HK\$22.4 million. Net margin decreased slightly from 13.8% to 11.6% as three out of the four new restaurants only started to operate from May 2008 onwards together with uprising staff costs and the effect of the new labour contract law.

As restaurants business market in Mainland China is enormous and has yet to be fully-tapped, and with continuous rising income and living standards for citizen in Mainland China, the Mainland China restaurants operation will continue to fuel growth for Tao Heung's business in the long term. The management believes with quality products and services, combined with successful branding, Tao Heung will continue to excel and capture the lucrative returns presented by the Mainland China market.

### B. Dongguan Logistics Centre

Significant milestone was recorded for the Dongguan Logistics Centre in the period under review. Further to the commencement of operation in supplying food products to the Group's Mainland China restaurants last September, the Dongguan Logistics Centre began trial run of supplying food products to Hong Kong in March 2008. Full operation in supplying to the Group's Hong Kong restaurants began in June 2008. The opening of the Dongguan Logistics Centre enables the Group to purchase goods in bulk and directly from the source of the origin, thereby reducing the effects of rising prices. Moreover, the ability to centralise the processing and procurement has enhanced the Group's operational efficiency and ensured the highest quality of its foods.

During the period under review, the Dongguan Logistics Centre incurred operating expenses of approximately HK\$30.4 million including approximately HK\$7.6 million and approximately HK\$8.2 million as staff costs and depreciation, respectively, so as to expedite the operation as the backbone of our restaurant operations. The management is confident that following the smooth operation and expected enhancement of overall utilisation rate, the Dongguan Logistics Centre would further enhance Tao Heung's operation and financials as the Group further expands in the long run.

## Peripheral businesses

During the period under review, the Group reported positive growth in peripheral businesses. Revenue increased to approximately HK\$23.1 million representing a 85.1% year-on-year growth. However, its revenue contribution was still relatively insignificant. Renowned for high quality food supply, the Group continued to supply food for three prominent airlines catering service providers in Hong Kong. Besides, the Group's chilled food and festive food operations performed well in the report period, with expanded food category and enhanced delivery efficiency for 7-Eleven convenience stores in the Southern China region, as well as Park'N Shops and Jusco Stores in Hong Kong.

The Group's investment in "Tai Cheong" bakery chain speeded up its network expansion with four new shops opened in the period under review, totaling eight shops as at 30 June 2008. Besides, synergies has been achieved through the supply of bakery products by the Group's logistics centres, and more are yet to come as Tai Cheong's network expands further. Meanwhile, the management will continue to keep an eye on potential opportunities for business expansion.

## Financial resources and liquidity

The Group maintained a strong financial and liquidity position for the six months ended 30 June 2008. The total assets increased by 5.1% to approximately HK\$1,336.1 million (31 December 2007: approximately HK\$1,271.5 million) while the total equity increased by 7.4% to approximately HK\$1,000.4 million (31 December 2007: approximately HK\$931.6 million).

As at 30 June 2008, the Group had cash and cash equivalents amounting to approximately HK\$272.3 million (31 December 2007: approximately HK\$459.5 million). After deducting the total interest-bearing bank borrowings of approximately HK\$58.4 million (31 December 2007: approximately HK\$71.2 million), the Group had a net cash surplus position of approximately HK\$213.9 million (31 December 2007: approximately HK\$388.3 million). The decrease in net cash is mainly attributable to the investment of financial assets amounting to approximately HK\$131.5 million during the period under review. In view of its cash-rich position, the Group continues to explore any investment or business development opportunities to deploy its cash resources with an aim to enhance the Group's profitability and values to its shareholders.

As at 30 June 2008, the Group's total interest-bearing bank borrowings were reduced to approximately HK\$58.4 million (31 December 2007: approximately HK\$71.2 million) during the period under review. The gearing ratio (defined as the total of interest-bearing bank borrowings and finance lease payables divided by the total shareholders' equity) was reduced to 0.06 times (31 December 2007: 0.08 times).

## Use of proceeds

The proceeds from the initial public offerings in Hong Kong in June 2007, after deduction of related issuance expenses, amounted to approximately HK\$405.0 million. Up to 30 June 2008, approximately HK\$201.5 million have been used and were applied in accordance with the proposed applications set forth in the Prospectus. The unutilised proceeds have been deposited with licensed banks and financial institutions in Hong Kong as short term interest-bearing deposits or currency-linked structured deposits in order to generate better return on surplus.

## Capital expenditure

Capital expenditure for the six months ended 30 June 2008 amounted to approximately HK\$115.8 million (2007: approximately HK\$123.1 million) and the capital commitments as at 30 June 2008 amounted to approximately HK\$38.7 million (31 December 2007: approximately HK\$5.0 million). Both the capital expenditure and capital commitments were mainly related to the purchase of premises for operating restaurant outlets and the renovation of the Group's new and existing restaurants.

## Pledge of assets

As at 30 June 2008, the Group pledged its bank deposits of approximately HK\$20.9 million, unlisted investments of approximately HK\$83.2 million, leasehold land and buildings of approximately HK\$99.6 million, and investment properties of approximately HK\$14.7 million to secure the banking facilities granted to the Group.

## Contingent liabilities

As at 30 June 2008, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$31.7 million (31 December 2007: approximately HK\$27.9 million).

## Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2008 were mostly denominated in Hong Kong Dollars ("HK\$") and Renminbi ("RMB"). The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of the controls that could be imposed by the PRC

government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against HK\$ may have impact on the Group results.

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

### Human resources

As at 30 June 2008, the Group had 6,569 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), share option schemes and various in-house training courses. The remuneration packages are subject to review on a regular basis. Further details of the Group's share option schemes are set forth under the section headed "Share Option Schemes" to this report.

### Award and recognition

During the period under review, the Group was awarded Hong Kong's "Best Mid Cap Company" (ranked second) by Finance Asia in its "2008 Asia's Best Companies Poll"; and Chung's Cuisine (Kowloon Bay branch) of the Group has become the first Chinese restaurant in Hong Kong to be awarded the "ISO 22000 Food Safety Management Systems Certification" by Hong Kong Quality Assurance Agency. Both awards and certification recognised the dedicated efforts of the Group in optimising our business management systems.

### Outlook

The management remains optimistic about Tao Heung's performance in the years to come. Undoubtedly, there will be more challenges in the future as inflation continues, with food costs standing high and economic growth slowing down; however, with a clear focus of tapping the mass market and targeting customers of average consumption power, Tao Heung sees this as an opportunity to attract customers who are looking for value-for-money dining options. The Group believes the current market situation will enable it to capture much more market share, as it would be increasingly difficult for less efficient restaurant operators to survive at time of high inflation and slow down economy. In order to explore this opportunity, the Group has committed to open four and one restaurants in Hong Kong and Mainland China, respectively, in the second half of the year which will further enhance its market share.

On the cost saving side, the Group will seek to further control food costs by looking for more quality direct sourcing options and continue to ride on the successful formula of the logistics centres. As the extent of food supply by the Dongguan Logistics Centre to Mainland China and Hong Kong restaurants continues to grow, in turn increasing the logistics centre's utilisation rate, the management expects efficiency and cost effectiveness to be further enhanced. All of these are to contribute to additional cost savings and margin improvement, enabling the Group to maintain its leading position in the Chinese restaurant industry.

Moving forward, the management will continue to identify new business opportunities such as further expanding its peripheral businesses by reaching out to new clients and exploring new distribution channels. The Group will also keep an eye on possible merger and acquisition opportunities which will enable Tao Heung to grow either vertically or horizontally, with an aim of creating synergies within the various streams of business. Dedicated to providing quality food, services and dining experience for its customers, Tao Heung will continue to work hard in achieving its goal of becoming the most popular and highly regarded Chinese restaurant group in Hong Kong and in the Mainland China, in turn bringing satisfactory returns to shareholders.

## DIVIDENDS

In acknowledging continuous support from our shareholders, the directors of the Company (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 2008, payable on 16 October 2008 to shareholders whose names appear on the register of members of the Company on 10 October 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 October 2008 to Friday, 10 October 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 3 October 2008.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the interests and short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of Directors	Notes	Number of ordinary shares (long position)					Total interests	% of total issued shares
		Personal interests	Family interests	Corporate interests	Equity derivatives			
<i>Executive Directors</i>								
Mr. Chung Wai Ping	(a), (d) and (e)	—	12,174,222	360,097,689	1,350,000	373,621,911	36.83	
Mr. Wong Ka Wing	(b)	—	—	103,283,124	—	103,283,124	10.18	
Mr. Chung Ming Fat	(c)	—	—	59,795,068	—	59,795,068	5.89	
Mr. Leung Yiu Chun	(f)	—	—	—	800,000	800,000	0.08	
Ms. Wong Fun Ching	(f)	—	—	—	800,000	800,000	0.08	
Mr. Ho Yuen Wah		3,000,000	—	—	—	3,000,000	0.29	
<i>Non-executive Directors</i>								
Mr. Fong Siu Kwong		180,000	—	—	—	180,000	0.02	
<i>Independent non-executive Directors</i>								
Mr. Li Tze Leung		107,000	—	—	—	107,000	0.01	
Mr. Ng Yat Cheung		742,137	—	—	—	742,137	0.07	

Notes:

- (a) 360,097,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.
- (b) These shares were held by Joy Mount Investments Limited, which is wholly-owned by Mr. Wong Ka Wing.
- (c) These shares were held by Whole Gain Holdings Limited, which is wholly-owned by Mr. Chung Ming Fat.
- (d) 12,174,222 shares were held by Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping.

## OTHER INFORMATION (CONTINUED)

- (e) 1,350,000 options granted to Ms. Chan Sai Ying, spouse of Mr. Chung Wai Ping, under the Pre-IPO 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.
- (f) These represented interests in options granted to Directors under the Pre-IPO 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 2008, none of the directors or chief executives had registered an interest or short position in the shares of underlying shares of the Company 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 2008, 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 Shareholders	Notes	Number of ordinary shares (long position)	
		Directly beneficially owned	% of total issued shares
Billion Era International Limited	(a)	360,097,689	35.50
Joy Mount Investments Limited	(b)	103,283,124	10.18
Perfect Plan International Limited		102,053,976	10.06
Whole Gain Holdings Limited	(c)	59,795,068	5.89

Notes:

- (a) These shares were wholly-owned by Billion Era International Limited, which is beneficially owned by Mr. Chung Wai Ping.
- (b) These shares were wholly-owned by Joy Mount Investments Limited, which is beneficially owned by Mr. Wong Ka Wing.
- (c) These shares were wholly-owned by Whole Gain Holdings Limited, which is beneficially owned by Mr. Chung Ming Fat.

Save as disclosed above, as at 30 June 2008, the Directors are not aware of any other person (other than the directors or chief executive of the Company) who have the interests or short positions in the shares and underlying shares of the Company which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

## SHARE OPTION SCHEMES

## (a) Pre-IPO Share Option Scheme

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

Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK\$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive. At 30 June 2008, there are 14,900,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet.

Details of the share options outstanding as at 30 June 2008 which have been granted under the Pre-IPO Share Option Scheme are as follows:

Name	Date of Grant	Number of share options					Outstanding at 30 June 2008
		Outstanding at 1 January 2008	Granted during the period	Exercised during the period	Lapsed on expiry	Cancelled upon termination of employment	
<i>Executive Directors</i>							
Mr. Leung Yiu Chun	9 June 2007	800,000	—	—	—	—	800,000
Ms. Wong Fun Ching	9 June 2007	800,000	—	—	—	—	800,000
<i>Connected Person</i>							
Ms. Chan Sai Ying	9 June 2007	1,350,000	—	—	—	—	1,350,000
Other employees	9 June 2007	12,200,000	—	—	—	(250,000)	11,950,000
		15,150,000	—	—	—	(250,000)	14,900,000

## (b) Share Option Scheme

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

## CORPORATE GOVERNANCE

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

The Company has complied with all the code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set forth in Appendix 14 of the Listing Rules throughout the period ended 30 June 2008.



### 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 dealings in securities by the Directors of the Company. The Company, having made specific enquiry of all Directors, confirms that its Directors had complied with the required standard set out in the Code throughout the six months ended 30 June 2008.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

### DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

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

### APPRECIATION

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

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

Hong Kong, 10 September 2008