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

## INTERIM REPORT 2010

* For identification purposes only

# Contents



# Corporate Information

## Board of Directors

### Executive Directors

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

### Non-executive Directors

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

### Independent non-executive Directors

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

## Company Secretary

Mr. Leung Yiu Chun *FCCA, FCPA*

## Authorised Representatives

Mr. Leung Yiu Chun
Mr. Ho Yuen Wah

## Members of Audit Committee

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

## Members of Nomination Committee

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

## Members of Remuneration Committee

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

## Registered Office

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

## Principal Place of Business in Hong Kong

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

## Principal Share Registrar

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

## Hong Kong Branch Share Registrar

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

## Principal Bankers

Bank of China (Hong Kong) Limited
Bank of East Asia, Limited
CITIC Bank International Limited
Dah Sing Bank Limited
DBS Bank (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
UBS AG

## Principal Auditors

Ernst & Young

## Stock Code

573

## Website

www.taoheung.com.hk

# Financial Highlights

| Key Financial Ratios | Notes | Six months ended 30 June 2010 (Unaudited) HK$'000 | 2009 (Unaudited) HK$'000 | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Performance | | | | |
| Revenue | | **1,391,906** | 1,301,395 | 7.0% |
| EBITDA | | **215,061** | 204,959 | 4.9% |
| Profit attributable to owners of the Company | | **104,395** | 103,709 | 0.7% |
| Gross profit margin | | **15.4%** | 15.6% | (1.3%) |
| Net profit margin | *1* | **7.6%** | 8.0% | (5.0%) |

| | | HK cents | HK cents | |
|---|---|---|---|---|
| Per Share Data | | | | |
| Earnings per share | | | | |
| — Basic | | **10.27** | 10.22 | 0.5% |
| — Dilutive | | **10.23** | 10.22 | 0.1% |
| Interim dividend per share | | **6.20** | 4.65 | 33.3% |
| Special dividend per share | | **N/A** | 1.55 | N/A |

| | | 30 June 2010 (Unaudited) HK$'000 | 31 December 2009 (Audited) HK$'000 | % Change Increase/ (Decrease) |
|---|---|---|---|---|
| Total assets | | **1,504,177** | 1,445,896 | 4.0% |
| Net assets | | **1,172,996** | 1,128,121 | 4.0% |
| Cash and cash equivalents | | **344,335** | 427,535 | (19.5%) |
| Net cash | *2* | **325,057** | 399,336 | (18.6%) |
| Liquidity and Gearing | | | | |
| Current ratio | *3* | **1.7** | 2.0 | (15.0%) |
| Quick ratio | *4* | **1.5** | 1.9 | (21.1%) |
| Gearing ratio | *5* | **1.7%** | 2.5% | (32.0%) |

| | | HK cents | HK cents | |
|---|---|---|---|---|
| Per Share Data | | | | |
| Net assets per share | *6* | **115.44** | 111.02 | 4.0% |
| Net cash per share | *7* | **31.99** | 39.30 | (18.6%) |

*Notes:*

1. Net profit margin is calculated as net profit attributable to owners of the Company divided by revenue.

2. Net cash is cash and cash equivalents less interest-bearing bank borrowings.

3. Current ratio is calculated as current assets divided by current liabilities.

4. Quick ratio is calculated as current assets less inventories divided by current liabilities.

5. Gearing ratio is calculated as total debt (interest-bearing bank borrowings and finance lease payables) divided by total equity attributable to owners of the Company.

6. Net assets per share is calculated based on the number of 1,016,141,000 shares (2009: 1,016,141,000 shares).

7. Net cash per share is calculated based on the number of 1,016,141,000 shares (2009: 1,016,141,000 shares).

# Condensed Consolidated Income Statement

*For the six months ended 30 June 2010*

## Interim Results (Unaudited)

The board (the "Board") of directors of Tao Heung Holdings Limited (the "Company"), together with its subsidiaries (collectively the "Group"), hereby announces the unaudited consolidated interim results of the Group for the six months ended 30 June 2010 together with comparative figures for the corresponding period in 2009. These interim condensed consolidated financial statements for the six months ended 30 June 2010 have not been audited, but have been reviewed by the Audit Committee of the Company.

| | | Six months ended 30 June | |
|---|---|---|---|
| | *Notes* | **2010 (Unaudited) HK$'000** | 2009 (Unaudited) HK$'000 (restated) |
| **REVENUE** | *5* | **1,391,906** | 1,301,395 |
| Cost of sales | | **(1,177,750)** | (1,097,959) |
| Gross profit | | **214,156** | 203,436 |
| Other income and gains | *5* | **6,798** | 5,752 |
| Selling and distribution costs | | **(29,933)** | (25,327) |
| Administrative expenses | | **(64,862)** | (57,707) |
| Finance costs | *6* | **(266)** | (484) |
| Share of profits and losses of associates, net | | **–** | 179 |
| **PROFIT BEFORE TAX** | *7* | **125,893** | 125,849 |
| Income tax expense | *8* | **(20,480)** | (21,211) |
| **PROFIT FOR THE PERIOD** | | **105,413** | 104,638 |
| Attributable to: | | | |
| Owners of the Company | | **104,395** | 103,709 |
| Non-controlling interests | | **1,018** | 929 |
| | | **105,413** | 104,638 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| — Basic | *10* | **HK10.27 cents** | HK10.22 cents |
| — Diluted | *10* | **HK10.23 cents** | HK10.22 cents |

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

# Condensed Consolidated Statement of Comprehensive Income

*For the six months ended 30 June 2010*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Notes* | **(Unaudited)** | (Unaudited) |
| | | **HK$'000** | HK$'000 |
| **PROFIT FOR THE PERIOD** | | **105,413** | 104,638 |
| Other comprehensive income for the period | | | |
| Exchange differences on translation of | | | |
| foreign operations | | **1,275** | 2,588 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **106,688** | 107,226 |
| Attributable to: | | | |
| Owners of the Company | | **105,670** | 106,297 |
| Non-controlling interests | | **1,018** | 929 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **106,688** | 107,226 |

# Condensed Consolidated Statement of Financial Position

*As at 30 June 2010*

| | Notes | 30 June 2010 (Unaudited) HK$'000 | 31 December 2009 (Audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *11* | **592,624** | 579,509 |
| Prepaid land lease payments | | **88,347** | 88,970 |
| Investment properties | *11* | **98,194** | 7,190 |
| Goodwill | | **22,020** | 22,020 |
| Interests in associates | | **3,316** | 1,254 |
| Deferred tax assets | | **61,441** | 58,230 |
| Rental deposits | | **72,320** | 61,385 |
| Deposits for purchases of property, plant and equipment | | **14,372** | 7,388 |
| Total non-current assets | | **952,634** | 825,946 |
| **CURRENT ASSETS** | | | |
| Inventories | | **52,886** | 42,178 |
| Trade receivables | *12* | **9,757** | 14,273 |
| Prepayments, deposits and other receivables | | **78,094** | 55,058 |
| Financial assets at fair value through profit or loss | | **20,280** | 38,885 |
| Tax recoverable | | **9,425** | 5,265 |
| Pledged deposits | | **36,766** | 36,756 |
| Cash and cash equivalents | | **344,335** | 427,535 |
| Total current assets | | **551,543** | 619,950 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *13* | **96,069** | 93,785 |
| Other payables and accruals | | **178,858** | 166,005 |
| Interest-bearing bank borrowings | | **14,030** | 16,926 |
| Finance lease payables | | **243** | 94 |
| Due to a minority shareholder of subsidiaries | | **1,058** | 2,321 |
| Tax payable | | **33,593** | 25,535 |
| Total current liabilities | | **323,851** | 304,666 |
| **NET CURRENT ASSETS** | | **227,692** | 315,284 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,180,326** | 1,141,230 |

*As at 30 June 2010*

| | Notes | 30 June 2010 (Unaudited) HK$'000 | 31 December 2009 (Audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | | 5,248 | 11,273 |
| Finance lease payables | | 269 | 23 |
| Deferred tax liabilities | | 1,813 | 1,813 |
| Total non-current liabilities | | 7,330 | 13,109 |
| Net assets | | 1,172,996 | 1,128,121 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | | 101,614 | 101,614 |
| Reserves | | 1,005,812 | 960,819 |
| Proposed dividends | 9 | 63,001 | 64,017 |
| | | 1,170,427 | 1,126,450 |
| Non-controlling interests | | 2,569 | 1,671 |
| Total equity | | 1,172,996 | 1,128,121 |

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2010*

| | | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | Issued capital (Unaudited) HK$'000 | Share premium (Unaudited) HK$'000 | Capital reserve (Unaudited) HK$'000 | Other reserve (Unaudited) HK$'000 | Share option reserve (Unaudited) HK$'000 | Capital redemption reserve (Unaudited) HK$'000 | Exchange fluctuation reserve (Unaudited) HK$'000 | Retained profits (Unaudited) HK$'000 | Proposed dividends (Unaudited) HK$'000 | Total (Unaudited) HK$'000 | Non-controlling interests (Unaudited) HK$'000 | Total equity (Unaudited) HK$'000 |
| At 1 January 2009 | | 101,437 | 310,452 | 110,748 | 21,136 | 13,844 | 9 | 28,470 | 382,849 | 60,862 | 1,029,807 | 2,311 | 1,032,118 |
| Total comprehensive income for the period | | – | – | – | – | – | – | 2,588 | 103,709 | – | 106,297 | 929 | 107,226 |
| Equity-settled share option arrangements | | – | – | – | – | 3,856 | – | – | – | – | 3,856 | – | 3,856 |
| Acquisition of non-controlling interests | | – | – | – | – | – | – | – | – | – | – | 777 | 777 |
| Dividend paid to a non-controlling shareholder of subsidiaries | | – | – | – | – | – | – | – | – | – | – | (2,119) | (2,119) |
| Final 2008 dividend | | – | – | – | – | – | – | – | – | (45,646) | (45,646) | – | (45,646) |
| Special 2008 dividend | | – | – | – | – | – | – | – | – | (15,216) | (15,216) | – | (15,216) |
| Proposed interim 2009 dividend | 9 | – | – | – | – | – | – | – | (47,251) | 47,251 | – | – | – |
| Proposed special 2009 dividend | 9 | – | – | – | – | – | – | – | (15,750) | 15,750 | – | – | – |
| At 30 June 2009 | | 101,437 | 310,452 | 110,748 | 21,136 | 17,700 | 9 | 31,058 | 423,557 | 63,001 | 1,079,098 | 1,898 | 1,080,996 |
| At 1 January 2010 | | 101,614 | 316,526 | 110,748 | 21,136 | 16,739 | 9 | 31,300 | 464,361 | 64,017 | 1,126,450 | 1,671 | 1,128,121 |
| Total comprehensive income for the period | | – | – | – | – | – | – | 1,275 | 104,395 | – | 105,670 | 1,018 | 106,688 |
| Equity-settled share option arrangements | | – | – | – | – | 2,324 | – | – | – | – | 2,324 | – | 2,324 |
| Dividend paid to a non-controlling shareholder of subsidiaries | | – | – | – | – | – | – | – | – | – | – | (120) | (120) |
| Final 2009 dividend | | – | – | – | – | – | – | – | – | (64,017) | (64,017) | – | (64,017) |
| Proposed interim 2010 dividend | 9 | – | – | – | – | – | – | – | (63,001) | 63,001 | – | – | – |
| At 30 June 2010 | | 101,614 | 316,526* | 110,748* | 21,136* | 19,063* | 9* | 32,575* | 505,755* | 63,001 | 1,170,427 | 2,569 | 1,172,996 |

* These reserve accounts comprise the consolidated reserves of HK$1,005,812,000 (31 December 2009: HK$960,819,000) in the condensed consolidated statement of financial position.

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2010*

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Net cash flows from operating activities | **156,080** | 145,105 |
| Net cash flows from/(used in) investing activities | **(166,001)** | 12,928 |
| Net cash flows used in financing activities | **(73,933)** | (72,821) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **(83,854)** | 85,212 |
| Cash and cash equivalents at beginning of period | **427,535** | 279,132 |
| Effect of foreign exchange rate change, net | **654** | 304 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **344,335** | 364,648 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **250,271** | 215,147 |
| Non-pledged time deposits with original maturity of less than three months when acquired | **94,064** | 149,501 |
| | **344,335** | 364,648 |

## 1. Corporate Information

The Company was incorporated in the Cayman Islands on 29 December 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at No. 13 Au Pui Wan Street, Fo Tan, Shatin, New Territories, Hong Kong.

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

— restaurant operations and provision of food catering services

— bakery operations

— production, sale and distribution of food products related to restaurant operations

## 2. Basis of Presentation and Preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2010 (the "Interim Financial Statements") have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

## 3. Accounting Policies

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those used in the financial statements of the Group for the year ended 31 December 2009, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's accounting period beginning on or after 1 January 2010.

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 Share-based Payment — *Group Cash-settled Share-based Payment Transactions* |
| HKFRS 3 (Revised) | *Business Combinations* |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |
| Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary* |
| HK Interpretation 4 (Revised in December 2009) | *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

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

## 3. Accounting Policies (continued)

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

| | |
|---|---|
| HKFRS 1 Amendment | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative* HKFRS 7 *Disclosures for First-time Adopters*[2] |
| HKFRS 9 | *Financial Instruments*[4] |
| HKAS 24 (Revised) | *Related Party Disclosures*[3] |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1] |
| HK(IFRIC)-Int 14 Amendment | Amendment to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3] |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments*[2] |

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and, HKAS 27, are effective for annual periods beginning on or after 1 July 2010 while the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2013

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

# 4. Operating Segment Information

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

## Geographical information

The following tables present revenue from external customers for the six months ended 30 June 2010 and 2009 and certain non-current asset information as at 30 June 2010 and 31 December 2009, by geographic area.

*(a) Revenue from external customers*

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Hong Kong | **1,150,774** | 1,084,251 |
| Mainland China | **241,132** | 217,144 |
| | **1,391,906** | 1,301,395 |

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

*(b) Non-current assets*

| | **30 June** | 31 December |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Audited) |
| | **HK$'000** | HK$'000 |
| Hong Kong | **451,484** | 335,579 |
| Mainland China | **367,389** | 370,752 |
| | **818,873** | 706,331 |

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

## 5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents gross restaurant and bakery revenue and net invoiced value of goods sold, net of relevant business tax and allowances for trade discounts.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **REVENUE** | | |
| Restaurant and bakery operations | **1,355,965** | 1,269,324 |
| Sale of food | **35,941** | 32,071 |
| | **1,391,906** | 1,301,395 |
| **OTHER INCOME AND GAINS** | | |
| Bank interest income | **1,631** | 1,103 |
| Gross rental income from investment properties | **555** | 223 |
| Sponsorship income | **3,431** | 3,380 |
| Others | **1,181** | 1,046 |
| | **6,798** | 5,752 |

## 6. Finance Costs

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on bank loans wholly repayable | | |
| — Within five years | **250** | 463 |
| — Beyond five years | **8** | 9 |
| Interest on finance leases | **8** | 12 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **266** | 484 |

## 7. Profit Before Tax

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Gross rental income from investment properties | **(555)** | (223) |
| Less: Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties | **1** | — |
| Net rental income | **(554)** | (223) |
| Employee benefit expenses (including directors' remuneration): | | |
| Salaries and bonuses | **364,071** | 338,597 |
| Retirement benefit scheme contributions (defined contribution schemes) | **18,803** | 18,590 |
| Equity-settled share option expense | **2,324** | 3,856 |
| | **385,198** | 361,043 |
| Cost of inventories sold | **452,760** | 415,629 |
| Depreciation | **88,186** | 78,113 |
| Recognition of prepaid land lease payments | **716** | 513 |
| Lease payments under operating leases in respect of land and buildings: | | |
| Minimum lease payments | **97,923** | 93,625 |
| Contingent rents | **4,897** | 4,790 |
| | **102,820** | 98,415 |
| Foreign exchange differences, net | **31** | 889 |

## 8. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2010. 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 | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Current — Hong Kong | | |
| Charge for the period | **14,990** | 17,757 |
| Current — Elsewhere | **8,701** | 6,639 |
| Deferred | **(3,211)** | (3,185) |
| Total tax charge for the period | **20,480** | 21,211 |

## 9. Dividends

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Proposed interim — HK6.20 cents (2009: HK4.65 cents) per ordinary share | **63,001** | 47,251 |
| Proposed special — Nil (2009: HK1.55 cents) per ordinary share | **—** | 15,750 |
| | **63,001** | 63,001 |

The proposed dividends for the period under review have been approved at the Company's board meeting held on 26 August 2010.

## 10. Earnings Per Share

The calculation of the basic earnings per share amounts is based on the unaudited consolidated profit for the six months ended 30 June 2010 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,016,141,000 (2009: 1,014,371,000) in issue during the period under review.

The calculation of the diluted earnings per share amount is based on the unaudited consolidated profit for the six month ended 30 June 2010 attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period of 1,016,141,000, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 4,534,525 assumed to have been issued at no consideration on the deemed exercise or conversion of the Pre-IPO Share Option Scheme.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2009 in respect of a dilution as the employee share options had no dilutive effect on the basic earnings per share.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation | **104,395** | 103,709 |

| | Number of shares | |
|---|---|---|
| | **2010** | 2009 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **1,016,141,000** | 1,014,371,000 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **4,534,525** | — |
| | **1,020,675,525** | 1,014,371,000 |

## 11. Property, Plant and Equipment and Investment Properties

During the six months ended 30 June 2010, additions of property, plant and equipment and investment properties amounted to HK$169,800,000 (2009: HK$76,650,000) in aggregate.

As at 30 June 2010, leasehold land and buildings with net book value of approximately HK$95,926,000 (31 December 2009: HK$96,843,000) were pledged to secure banking facilities granted to the Group.

As at 30 June 2010, the Group's investment properties with a total carrying amount of HK$6,090,000 (31 December 2009: HK$6,090,000) were pledged to secure banking facilities granted to the Group.

## 12. 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 end of the reporting period, based on the payment due date and that are not considered to be impaired, is as follows:

| | **30 June 2010 (Unaudited) HK$'000** | 31 December 2009 (Audited) HK$'000 |
|---|---|---|
| Neither past due nor impaired | **7,976** | 12,000 |
| Less than 1 month past due | **1,702** | 2,069 |
| 1 to 3 months past due | **67** | 129 |
| Over 3 months past due | **12** | 75 |
| | **9,757** | 14,273 |

## 13. Trade Payables

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

| | **30 June 2010 (Unaudited) HK$'000** | 31 December 2009 (Audited) HK$'000 |
|---|---|---|
| Within 1 month | **80,390** | 85,017 |
| 1 to 2 months | **7,838** | 4,207 |
| 2 to 3 months | **3,061** | 1,302 |
| Over 3 months | **4,780** | 3,259 |
| | **96,069** | 93,785 |

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

## 14. Contingent Liabilities

| | **30 June 2010 (Unaudited) HK$'000** | 31 December 2009 (Audited) HK$'000 |
|---|---|---|
| Bank guarantees given in lieu of utility and property rental deposits | **28,400** | 27,978 |

## 15. Operating Lease Arrangements

### (i) As lessor

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

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

| | **30 June 2010 (Unaudited) HK$'000** | 31 December 2009 (Audited) HK$'000 |
|---|---|---|
| Within one year | **6** | 6 |

### (ii) As lessee

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

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

| | **30 June 2010 (Unaudited) HK$'000** | 31 December 2009 (Audited) HK$'000 |
|---|---|---|
| Within one year | **211,510** | 195,219 |
| In the second to fifth years, inclusive | **322,152** | 300,364 |
| Beyond five years | **100,080** | 71,505 |
| | **633,742** | 567,088 |

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

## 16. Commitments

In addition to the operating lease commitments detailed in note 15(ii) above, the Group had the following capital commitments as at the end of the reporting period:

| | **30 June 2010 (Unaudited) HK$'000** | 31 December 2009 (Audited) HK$'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Buildings | **–** | 80,634 |
| Leasehold improvements | **25,317** | – |
| Machinery and equipment | **17,390** | – |

## 17. Connected and Related Party Transactions

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

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

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

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | *Notes* | **2010 (Unaudited) HK$'000** | 2009 (Unaudited) HK$'000 |
| Purchases of food and other operating items | | | |
| Miracle Time Enterprise Limited ("Miracle Time") | *(i) & (ii)* | **4,126** | 4,176 |
| Skybest International Investment Enterprise Limited ("Skybest") | *(i) & (ii)* | **5,145** | 5,095 |
| Rental expense to a related party | *(iii)* | **24** | 24 |

*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, was charged based on mutually agreed terms at a monthly fixed amount of HK$4,000 (2009: HK$4,000).

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

## 17. Connected and Related Party Transactions (continued)

### (b) Key management compensation

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Short term employee benefits | **2,095** | 1,771 |
| Post-employment benefits | **34** | 34 |
| | **2,129** | 1,805 |

## 18. Business Combinations

On 30 March 2009, the Group acquired an additional 60% equity interest in Tai Cheong Holdings Group Limited and its subsidiaries ("Tai Cheong Group") for an aggregate consideration of HK$12,120,000, which included a cash consideration of HK$6,120,000 and the assumption of a shareholder loan of HK$6,000,000 (the "Acquisition"). Tai Cheong became an 80% owned subsidiary of the Group thereafter.

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

| | HK$'000 |
|---|---|
| Property, plant and equipment | 4,540 |
| Inventories | 472 |
| Trade receivables | 730 |
| Prepayments, deposits and other receivables | 3,540 |
| Cash and bank balances | 7,292 |
| Trade payables | (1,640) |
| Other payables and accruals | (2,992) |
| Due to a related company | (2,000) |
| Tax payable | (54) |
| Non-controlling interests | (777) |
| Net assets acquired at fair values | 9,111 |
| Interest in an associate | (777) |
| Goodwill on acquisition | 3,786 |
| Total cost of the Acquisition | 12,120 |

## 18. Business Combinations (continued)

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

| | HK$'000 |
|---|---|
| Cash consideration | (12,120) |
| Cash and bank balances acquired | 7,292 |
| Net outflow of cash and cash equivalents in respect of the Acquisition | (4,828) |

## 19. Event After the Reporting Period

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

## 20. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current period's presentation. In the opinion of the directors, such reclassifications result in a more appropriate presentation and better reflect the nature of the transactions/balances.

# Management Discussion and Analysis

## Business Review

The Board is pleased to announce the Group's unaudited interim results for the six months ended 30 June 2010. During the reporting period, Tao Heung's Hong Kong operation continued to achieve stable growth due to steady customer traffic resulting from the effective implementation of the Group's "Delicious and Value for Money" business philosophy. However, the rise in food costs, utility costs and lacklustre consumption sentiment owing to inflationary pressure were among the factors that affected the Hong Kong operation. In Mainland China, stronger growth was achieved, benefiting from the country's sound economic environment which boosted consumer confidence.

As at 30 June 2010, the Group recorded total turnover of approximately HK$1,391.9 million, up 7.0% from HK$1,301.4 million achieved over the same period last year. Inflation brought upon by a reviving global economy affected Tao Heung's operating environment, in particular, pushing up food and energy costs. Nevertheless, the Group managed to control operating expenses and raised efficiency by leveraging its Hong Kong and Dongguan logistics centres. Moreover, the centres proved to be successful in helping sustain profitability, as evidenced by a moderate increase in EBITDA by 4.9% to HK$215.1 million. Profit attributable to owners of the Company was HK$104.4 million (2009: HK$103.7 million).

In consideration of the Group's healthy financial position as well as commitment to delivering fair returns to shareholders, the Board has proposed an interim dividend payment of HK6.2 cents per share, representing a dividend payout ratio of approximately 60.4% of the Group's profit for the period under review.

### Hong Kong Operations

Hong Kong operations managed to report a modest growth in revenue of 6.1% to HK$1,150.8 million, despite four flagship stores underwent renovation work in part of the review period. Although these stores resumed operation in February and April 2010 respectively after the completion of the large-scale renovation project of the shopping malls, revenue contribution from these outlets was inevitably limited. Moreover, consumer confidence remained weak as a result of uncertain market conditions and rising inflationary pressure. With average spending dipping slightly, same store sales growth declined by 3.72% over the same period last year. Gross profit margin declined as well, down modestly due to a rise in food costs. Still, the Hong Kong and Dongguan logistics centres played effective roles in controlling costs, providing centralised food processing and enabling the Group to cost-effectively source ingredients directly from farms in Mainland China. Furthermore, rental and labour costs were relatively stable during the review period, EBITDA thus rose by 2.6% to HK$163.7 million.

As the Group is committed to enhancing the environment of its outlets to maintain long-term growth, such efforts have resulted in an increase in depreciation costs for interior decoration; In the review period, renovation work was carried out in a total of eight restaurants, including the aforesaid four flagship stores. Profit attributable to owners of the Company declined by 0.1% year on year to HK$90.4 million (2009: HK$90.5 million).

Despite challenging conditions, Tao Heung continued to expand its network, opening five new outlets during the review period. Among them, Joyous One, established in June at Tsim Sha Tsui, was exceptionally well received. The Group operated 66 outlets in Hong Kong during the review period, up from 58 in the corresponding period of last year.

In respect of the Tai Cheong Bakery business, the Group operated 15 outlets as at 30 June 2010; resulting in a double-digit revenue growth as compared to the same period last year. The rise in revenue was partly due to the extension in network and the introduction of new packaging that tapped the tourist market.

## Mainland China Operations

Mainland China proved to be the growth driver for the Group. Effective stimulus policies employed by the government have resulted in the country's rapid recovery from the downturn, spurring strong domestic consumption. The Group recorded revenue of HK$241.1 million, a year-on-year rise of 11.1%, accounting for 17.3% of Tao Heung's total turnover. EBITDA increased by 13.0% to HK$51.3 million, and profit attributable to owners of the Company was increased by 6.1% to HK$14.0 million (2009: HK$13.2 million).

Riding on the rapid economic growth that is strongly supported by the Chinese government, Mainland China market is expected to recover at a faster pace than Hong Kong, hence the Group will quicken its expansion effort in Southern China. The Group plans to open around four to five outlets in Mainland China per annum starting from next year.

## Logistics Centres

Logistics centre is still seen as a successful way of offsetting partial inflationary pressure. With rising efficiency, the logistics centres have allowed the Group to realise greater cost savings. Moreover, the ability to bulk purchase food raw materials facilitated by the logistics centres have enabled the Group to reduce cost, enhance efficiency and maintain product quality. And with the Dongguan logistics centre now capable of supplying more food to Tao Heung's restaurants, the combination of said factors contributed to a stable level of gross margin despite rising food costs and other utility expenses.

At present, the Dongguan logistics centre is delivering a monthly output of 750 tonnes and is targeted to reach 1,000 tonnes per month by the end of 2010. The management is still optimistic towards achieving wholly breakeven by the end of 2010.

With regards to the Fotan logistics centre, it has almost reached full capacity. Construction of the new Tai Po logistics centre is progressing well and is expected to commence operation in the first quarter of 2011. The Tai Po logistics centre will encompass 200,000 square feet and will possess approximately five times the production capacity of its Fotan counterpart. Once the centre is in full operation, the management expects it to work seamlessly with the Dongguan logistics centre, creating a solid platform for aiding future expansion.

## Peripheral Business

The Group was able to realise stable turnover growth from its peripheral business during the review period, though this segment continued to constitute a small fraction of Tao Heung's total revenue. Revenue of HK$35.9 million was recorded, representing a year-on-year increase of 11.8%. While the airline catering business remained stable, the chilled food operation saw supply to supermarkets and other food caterers increasing steadily, contributing to the expanded sales volume.

## Financial resources and liquidity

The Group maintained a strong financial and liquidity position for the six months ended 30 June 2010. The total assets increased by 4.0% to approximately HK$1,504.2 million (31 December 2009: approximately HK$1,445.9 million) while the total equity increased by 4.0% to approximately HK$1,173.0 million (31 December 2009: approximately HK$1,128.1 million).

As at 30 June 2010, the Group had the cash and cash equivalents amounting to approximately HK$344.3 million. After deducting the total interest-bearing bank borrowings of HK$19.3 million, the Group had a net cash surplus position of approximately HK$325.0 million. In view of its cash-rich position, the Group continues to explore any investment or business development opportunities to deploy its cash resources with an aim to enhance the Group's profitability and values to its shareholders.

As at 30 June 2010, the Group's total interest-bearing bank borrowings were reduced to approximately HK$19.3 million (31 December 2009: approximately HK$28.2 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 equity attributable to the owners of the Company) was reduced to 1.7% (31 December 2009: 2.5%).

## Capital expenditure

Capital expenditure for the six months ended 30 June 2010 amounted to approximately HK$169.8 million (2009: HK$76.7 million) and the capital commitments as at 30 June 2010 amounted to approximately HK$42.7 million (31 December 2009: HK$80.6 million). Both the capital expenditure and capital commitments were mainly related to the renovation of the Group's new restaurants and for Tai Po logistics centre.

## Pledge of assets

As at 30 June 2010, the Group pledged its bank deposits of approximately HK$36.8 million, leasehold land and buildings of approximately HK$95.9 million and investment properties of approximately HK$6.1 million to secure the banking facilities granted to the Group.

## Contingent liabilities

As at 30 June 2010, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$28.4 million (31 December 2009: approximately HK$28.0 million).

## Foreign exchange risk management

The Group's sales and purchases for the six months ended 30 June 2010 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 2010, the Group had 7,441 employees. In order to attract and retain the high quality staff and to enable smooth operation within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 30 June 2010, there are 11,090,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Also, as at 30 June 2010, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

## Prospects

Looking forward, the management is cautiously optimistic about the second half of the year. Mainland China looks set to provide immense opportunities as domestic consumption in key regions where the Group operates will likely remain strong. With a healthy economy and rising living standards, an increase in the middle-class population will perfectly correspond to Tao Heung's business objectives. Though the Hong Kong market will continue to pose challenges, including inflation that could erode consumer confidence, further increase food costs as well as the passing of legislation for minimum wages, the management believes opportunities for growth still exist. The Tai Po logistics centre will commence operation in early 2011; hence, will help alleviate cost pressures. Still, the Group will continue in efforts to improve efficiency and place greater emphasis on tapping the Mainland China market, seen as key to sustaining long-term growth.

To derive greater income from its Mainland China operation, the management will seek to further enhance the Group's presence in the country. In the coming half year, one to two outlets will be added, and as many as four to five per year from 2011 onwards. With Guangzhou and Shenzhen being our foundations in the Mainland, we will actively consider extending operations into the emerging cities among the Pearl River Delta region such as Foshan, Huizhou and Zhongshan and the major northern cities including Beijing and Shanghai. The opening of a new brand, namely, *Cheers Palace* (迎囍皇宮), in Shenzhen in the second half year will enable Tao Heung to tap Mainland China's wedding and banquet market.

Despite the fear of inflation continuing to loom over Hong Kong, the management will continue to strengthen Tao Heung's position in the market, though at a more modest pace of one to two new restaurants in the second half year. To earn customers' loyalty, the Group will maintain its focus on delivering quality food, environment and dining experience. Such focus will include continuing a multi-branding strategy to cater for different customer segments. The introduction of *HIPOT* which targets young and trendy hotpot customers is one example, while most recently the launch of *Joyous One* (迎), located at THE ONE, aims to attract professionals and affluent tourists by offering exquisite dining experiences. Placing every effort to maintaining customer traffic, average spending and revenue contribution from new outlets, the management anticipates steady growth from the Hong Kong operation in the coming years.

In addition to efforts placed on restaurant operations, the Group will continue diversifying its revenue streams via different business activities. The management will explore more sales channels for the distribution of Tao Heung's pre-packaged food as well as participate in various food fairs to generate greater awareness. Tai Cheong Bakery will look to broaden its product offerings to appeal to a wider range of customers. The operation will also leverage its new packaging and image to tap the tourist market. With the opening of an additional outlet in the second half, revenue contribution from Tai Cheong bakery will be further boosted in the remaining financial year.

Aiding all of the Group's activities are its logistics centres which, in addition to facilitating efficient food processing, is essential for realising cost savings via direct sourcing from local farms. The new logistics centre in Tai Po, scheduled to commence operation in early 2011, will enable the Group to supply food to a maximum of 150 restaurants, mitigating the effect of rising food costs, generating higher cost savings for the Group, and allowing the management to explore more peripheral business opportunities — opening new income streams.

As the Group forges ahead, the management will continue to abide by the objective of realising healthy and sustainable growth. Hence, employing a multi-branding strategy, adopting stringent cost controls, and diversifying businesses will be ongoing objectives. As well, providing quality food, services and dining experiences will continue to be Tao Heung's major and long-term focus. From the combination of such efforts, the Group will fortify its market leadership position, delivering fair returns to shareholders.

# Other Information

## Dividends

In acknowledging continuous support from our shareholders, the Directors have declared the payment of an interim dividend of HK6.20 cents per ordinary share in respect of the year ending 31 December 2010, payable on 7 October 2010 to shareholders whose names appear on the register of members of the Company on 17 September 2010.

## Closure of Register of Members

The register of members of the Company will be closed from Monday, 20 September 2010 to Wednesday, 22 September 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 September 2010.

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

As at 30 June 2010, 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:

| | | **Number of ordinary shares (long position)** | | | | | **% of total** |
|---|---|---|---|---|---|---|---|
| | | **Personal** | **Family** | **Corporate** | **Equity** | **Total** | **issued** |
| **Name of Directors** | *Notes* | **interests** | **interests** | **interests** | **derivatives** | **interests** | **shares** |
| *Executive Directors* | | | | | | | |
| Mr. Chung Wai Ping | *(a) and (d)* | — | 12,174,222 | 372,597,689 | — | 384,771,911 | 37.87 |
| Mr. Wong Ka Wing | *(b)* | 3,722,679 | — | 103,283,124 | — | 107,005,803 | 10.53 |
| Mr. Chung Ming Fat | *(c)* | — | — | 56,795,068 | — | 56,795,068 | 5.59 |
| Mr. Leung Yiu Chun | *(e)* | 240,000 | — | — | 560,000 | 800,000 | 0.08 |
| Ms. Wong Fun Ching | *(e)* | 240,000 | — | — | 560,000 | 800,000 | 0.08 |
| Mr. Ho Yuen Wah | | 2,000,000 | — | — | — | 2,000,000 | 0.20 |
| *Non-executive Directors* | | | | | | | |
| Mr. Fong Siu Kwong | | 180,000 | — | — | — | 180,000 | 0.02 |
| *Independent non-executive Directors* | | | | | | | |
| Mr. Ng Yat Cheung | | 70,937 | — | — | — | 70,937 | 0.01 |

*Notes:*

(a) 372,597,689 shares were held by Billion Era International Limited, which is wholly-owned by Mr. Chung Wai Ping.

(b) Of these shares, 3,722,679 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.

(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.

(e) 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.

Save as disclosed above, as at 30 June 2010, none of the directors or chief executives had registered an interest or short position in the share of underlying shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

## Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2010, 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:

| | | **Number of ordinary shares (long position)** | |
|---|---|---|---|
| **Name of Shareholder** | *Notes* | **Directly beneficially owned** | **% of total issued shares** |
| Billion Era International Limited | *(a)* | 372,597,689 | 36.67 |
| Joy Mount Investments Limited | *(b)* | 103,283,124 | 10.16 |
| Perfect Plan International Limited | | 102,053,976 | 10.04 |
| Value Partners Limited | | 88,615,000 | 8.72 |
| Whole Gain Holdings Limited | *(c)* | 56,795,068 | 5.59 |

*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 2010, 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.

At 30 June 2010, there are 11,090,000 outstanding options granted under the Pre-IPO Share Option Scheme which have not been exercised yet. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK$1.59 per share and the holders of the said share options may exercise the share options during the period from 29 June 2009 to 28 June 2012, both days inclusive.

Details of the share options outstanding as at 30 June 2010 which have been granted under the Pre-IPO Share Option Scheme are as follows:

| | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|
| **Name** | **Date of Grant** | **Outstanding at 1 January 2010** | **Granted during the period** | **Exercised during the period** | **Lapsed on expiry** | **Cancelled upon termination of employment** | **Outstanding at 30 June 2010** |
| *Executive Directors* | | | | | | | |
| Mr. Leung Yiu Chun | 9 June 2007 | 560,000 | — | — | — | — | 560,000 |
| Ms. Wong Fun Ching | 9 June 2007 | 560,000 | — | — | — | — | 560,000 |
| Other employees | 9 June 2007 | 9,970,000 | — | — | — | — | 9,970,000 |
| | | 11,090,000 | — | — | — | — | 11,090,000 |

### (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 compiled 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 2010.

## 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 compiled with the required standards as set out in the Code throughout the six months ended 30 June 2010.

## Purchase, Sale or Redemption of Listed Securities

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

## Publication of interim results

The electronic version of this report will be published on the website of the Stock Exchange (www.hkex.com.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*

Hong Kong, 26 August 2010