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TAI HING GROUP HOLDINGS LIMITED

太興集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6811)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

UNAUDITED RESULTS OF THE GROUP

The board of directors (the “Board”) of Tai Hing Group Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021 together with the comparative figures for the corresponding period in 2020 as follows:

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 16.4% to HK\$1,532.7 million in 1H2021 (1H2020: HK\$1,316.9 million).
- Gross profit margin increased 1.3 percentage points to 71.8% (1H2020: 70.5%).
- Profit attributable to owners of the Company for the six months ended 30 June 2021 was HK\$33.4 million (1H2020: HK\$8.4 million).
- Basic earnings per share were HK3.34 cents (1H2020: HK0.84 cent).
- Maintain a healthy and liquid balance sheet with cash and cash equivalents of HK\$518.5 million as at 30 June 2021.
- The Board has declared the payment of an interim dividend of HK2.50 cents per share (1H2020: HK1.30 cents per share) for the six months ended 30 June 2021.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	4	1,532,667	1,316,937
Cost of materials consumed		<u>(431,745)</u>	<u>(388,549)</u>
Gross profit		1,100,922	928,388
Other income and gains, net	4	40,679	39,077
Staff costs		(534,375)	(448,972)
Depreciation and amortisation		(80,816)	(78,234)
Amortisation of right-of-use assets, rental and related expenses		(251,564)	(218,279)
Other operating expenses, net		(213,677)	(183,153)
Finance costs	5	<u>(20,314)</u>	<u>(24,698)</u>
PROFIT BEFORE TAX	6	40,855	14,129
Income tax expense	7	<u>(9,028)</u>	<u>(6,595)</u>
PROFIT FOR THE PERIOD		<u>31,827</u>	<u>7,534</u>
Profit for the period attributable to:			
Owners of the Company		33,441	8,405
Non-controlling interests		<u>(1,614)</u>	<u>(871)</u>
		<u>31,827</u>	<u>7,534</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic	9	<u>HK3.34 cents</u>	<u>HK0.84 cent</u>
Diluted	9	<u>HK3.33 cents</u>	<u>HK0.84 cent</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	31,827	7,534
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>4,410</u>	<u>(3,778)</u>
	<u>4,410</u>	<u>(3,778)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>36,237</u>	<u>3,756</u>
Attributable to:		
Owners of the Company	<u>37,785</u>	4,594
Non-controlling interests	<u>(1,548)</u>	<u>(838)</u>
	<u>36,237</u>	<u>3,756</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June 2021	31 December 2020
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment and right-of-use assets	<i>10</i>	2,102,100	2,195,312
Investment properties		45,041	36,867
Intangible assets		934	1,012
Prepayments, deposits and other receivables		145,725	141,244
Deferred tax assets		24,971	26,311
		<hr/>	<hr/>
Total non-current assets		2,318,771	2,400,746
CURRENT ASSETS			
Inventories		68,649	78,800
Trade receivables	<i>11</i>	21,618	24,331
Prepayments, deposits and other receivables		132,798	130,716
Tax recoverable		2,628	17,953
Cash and cash equivalents		518,531	562,081
		<hr/>	<hr/>
Total current assets		744,224	813,881
CURRENT LIABILITIES			
Trade payables	<i>12</i>	98,297	91,935
Other payables and accruals		220,702	248,796
Contract liabilities		41,304	77,847
Interest-bearing bank borrowings		120,000	24,230
Lease liabilities		497,705	555,028
Tax payable		12,870	11,500
		<hr/>	<hr/>
Total current liabilities		990,878	1,009,336
NET CURRENT LIABILITIES		<hr/> (246,654)	<hr/> (195,455)
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 2,072,117	<hr/> 2,205,291

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
<i>Note</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	979,360	1,029,264
Other payables and accruals	32,295	33,589
Interest-bearing bank borrowings	–	54,545
Deferred tax liabilities	4,478	4,881
	<hr/>	<hr/>
Total non-current liabilities	1,016,133	1,122,279
	<hr/>	<hr/>
Net assets	1,055,984	1,083,012
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	10,019	10,019
Reserves	1,041,961	1,067,441
	<hr/>	<hr/>
	1,051,980	1,077,460
Non-controlling interests	4,004	5,552
	<hr/>	<hr/>
Total equity	1,055,984	1,083,012
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 11 December 2017. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at 13/F, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, Hong Kong.

The Company is an investment holding company. During the reporting periods, the Group was engaged in the operation and management of restaurants and sale of food products.

In the opinion of the directors of the Company (the “Directors”), Chun Fat Company Limited (“Chun Fat”), a company incorporated in the British Virgin Islands (the “BVI”) on 30 November 2017, is the immediate and ultimate holding company of the Company.

2.1 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange and the Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2.2 BASIS OF PRESENTATION

As at 30 June 2021, the Group had net current liabilities of HK\$246,654,000 which included the current portion of lease liabilities of HK\$497,705,000. The Directors believe that the Group has sufficient cash flows from operations to meet its liabilities as and when they fall due. Therefore, the consolidated financial statements are prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect to these adjustments has not been reflected in the consolidated financial statements.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform — Phase 2

Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)

Other than as explained below regarding the impact of Amendment to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021*, the revised standards are not relevant to the preparation of the Group's condensed consolidated interim financial information. The nature and impact of the revised HKFRSs are described below:

Amendment to HKFRS 16 *COVID-19-Related Rent Concessions beyond 30 June 2021*

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the Covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK\$10,931,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment, which is the operation and management of restaurants and sale of food products.

For management purposes, the Group is organised into business units based on geographical areas and has two reportable operating segments as follows:

- (i) the Hong Kong, Macau and Taiwan segment is engaged in the operation of restaurants, and sale of food products; and
- (ii) the Mainland China segment is engaged in the operation of restaurants, and sale of food products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that intersegment results and finance costs other than interest on lease liabilities are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, intangible assets and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Geographical information

For the periods ended 30 June 2021 and 2020

	Hong Kong, Macau and Taiwan		Mainland China		Total	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Segment revenue						
Sales to external customers*	1,177,108	1,135,499	355,559	181,438	1,532,667	1,316,937
Intersegment sales	–	–	52,534	22,845	52,534	22,845
Revenue	1,177,108	1,135,499	408,093	204,283	1,585,201	1,339,782
<i>Reconciliation:</i>						
Elimination of intersegment sales					(52,534)	(22,845)
					<u>1,532,667</u>	<u>1,316,937</u>
Segment results	55,144	71,296	(12,404)	(51,779)	42,740	19,517
Elimination of intersegment results					(859)	(403)
Finance costs (other than interest on lease liabilities)					(1,026)	(4,985)
Profit before tax					<u>40,855</u>	<u>14,129</u>

As at 30 June 2021 and 31 December 2020

	Hong Kong, Macau and Taiwan		Mainland China		Total	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Segment assets	1,783,629	1,871,950	732,302	735,320	2,515,931	2,607,270
<i>Reconciliation:</i>						
Corporate and other unallocated assets					547,064	607,357
Total assets					<u>3,062,995</u>	<u>3,214,627</u>
Segment liabilities	1,346,640	1,505,432	523,023	531,027	1,869,663	2,036,459
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities					137,348	95,156
Total liabilities					<u>2,007,011</u>	<u>2,131,615</u>

* The revenue information above is based on the locations of the customers.

Information about major customers

There was no revenue from customers individually contributing over 10% to the total revenue of the Group.

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers		
(i) Disaggregated revenue information		
Types of goods or services		
Revenue from restaurant operations	1,483,588	1,278,225
Revenue from the sale of food products	49,079	38,712
	<u>1,532,667</u>	<u>1,316,937</u>
Total revenue from contracts with customers	<u>1,532,667</u>	<u>1,316,937</u>
Geographical markets		
Hong Kong, Macau and Taiwan	1,177,108	1,135,499
Mainland China	355,559	181,438
	<u>1,532,667</u>	<u>1,316,937</u>
Total revenue from contracts with customers	<u>1,532,667</u>	<u>1,316,937</u>
Timing of revenue recognition		
At a point in time	<u>1,532,667</u>	<u>1,316,937</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue recognised that was included in the contract liabilities at the beginning of the period		
— Restaurant operations	<u>43,973</u>	<u>50,446</u>

(ii) **Performance obligations**

Information about the Group's performance obligations is summarised below:

Restaurant operations

The performance obligation is satisfied when the catering services have been provided to customers. The Group's trading terms with its customers are mainly on cash and credit card settlement. The credit period is generally less than one month.

Sale of food products

The performance obligation is satisfied upon acceptance of the products by the customers with immediate payment. The Group's trading terms with its customers are mainly on cash, credit card settlement and on credit. The credit period is generally one to two months.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income and gains, net		
Bank interest income	1,181	5,048
Rental income	691	542
Royalty income	290	780
Subsidies received from utility companies for purchases of items of property, plant and equipment*	1,673	1,489
Government grants*	30,727	29,337
Foreign exchange differences, net	(78)	(1,601)
Others	6,195	3,482
	40,679	39,077

* Government grants during the periods ended 30 June 2021 and 2020 included COVID-19 relief subsidies received. As at the end of each reporting period, there were no unfulfilled conditions or other contingencies attaching to the subsidies and government grants that had been recognised by the Group.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Interest on bank borrowings	1,026	4,985
Interest on lease liabilities	19,288	19,713
	<u>20,314</u>	<u>24,698</u>

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Cost of materials consumed	431,745	388,549
Depreciation of items of property, plant and equipment	80,738	78,156
Amortisation of intangible assets	78	78
Amortisation of right-of-use assets*	218,906	216,449
Covid-19-related rent concessions from lessors*	(10,931)	(39,056)
Employee benefit expenses (including directors' and chief executive's remuneration):		
Salaries, allowances and benefits in kind***	498,058	421,257
Equity-settled share option expenses	1,055	6,363
Pension scheme contributions	35,262	21,352
	<u>534,375</u>	<u>448,972</u>
Foreign exchange differences, net**	78	1,601
Impairment of right-of-use assets****	10,122	612
Impairment of items of property, plant and equipment****	1,749	5,180
Loss on disposal of items of property, plant and equipment****	7,419	14,623
Utilities expenses****	55,669	50,272
Packing and consumables****	27,865	24,130
Cleaning expenses****	17,012	17,671
Transportation and logistics****	14,392	12,185

* These are included in "Amortisation of right-of-use assets, rental and related expenses" in profit or loss.

** Foreign exchange differences, net are included in "Other income and gains, net" in profit or loss.

*** Employment support scheme subsidies from HKSAR Government during the period ended 30 June 2020 were included in "Staff costs" in profit or loss.

**** These items are included in "Other operating expenses, net" in profit or loss.

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2021	2020
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current — Hong Kong		
Charge for the period	5,349	6,763
Current — Elsewhere	2,742	218
Deferred tax	937	(386)
	<hr/>	<hr/>
Total tax charge for the period	9,028	6,595
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDEND

	Six months ended 30 June	
	2021	2020
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interim dividends declared after the end of the reporting period		
— HK2.50 cents (2020: HK1.30 cents) per ordinary share	25,090	13,000
	<hr/>	<hr/>

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount for the period ended 30 June 2021 is based on the profit for the period attributable to owners of the Company of HK\$33,441,000 (2020: HK\$8,405,000) and the weighted average number of ordinary shares in issue of 1,001,873,000 (2020: 1,000,000,000).

The calculation of diluted earnings per share amount for the period ended 30 June 2021 is based on the profit for the period attributable to owners of the Company of HK\$33,441,000 (2020: HK\$8,405,000). The weighted average number of ordinary shares used in the calculation is 1,001,873,000 (2020: 1,000,000,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of 3,362,096 (2020: 4,204,965) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

10. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

For the six months ended 30 June 2021, the Group acquired property, plant and equipment of approximately HK\$79 million (six months ended 30 June 2020: approximately HK\$61 million).

As at 30 June 2021, the Group had certain property, plant and equipment and right-of-use assets with an aggregate net carrying amount of HK\$248 million (31 December 2020: HK\$253 million) which were pledged to secure bank borrowings granted to the Group.

11. TRADE RECEIVABLES

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Trade receivables	21,618	24,331

The Group's trading terms with its customers are mainly on cash and credit card settlement. The credit period is generally a few days to two months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Within 1 month	16,349	17,316
1 to 2 months	3,596	4,036
2 to 3 months	493	677
Over 3 months	1,180	2,302
	21,618	24,331

12. TRADE PAYABLES

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Within 1 month	88,442	75,729
1 to 2 months	3,547	10,256
2 to 3 months	1,089	849
Over 3 months	5,219	5,101
	98,297	91,935

13. ISSUED CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Authorised:		
As at 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021	<u>10,000,000,000</u>	<u>100,000</u>
	Number of shares	Share capital <i>HK\$'000</i>
Issued and fully paid:		
As at 1 January 2020	1,000,000,000	10,000
Share options exercised (<i>note a</i>)	<u>1,873,000</u>	<u>19</u>
As at 31 December 2020, 1 January 2021 and 30 June 2021 (<i>note b</i>)	<u>1,001,873,000</u>	<u>10,019</u>

Notes

- (a) During the year ended 31 December 2020, the subscription rights attaching to 1,873,000 share options were exercised at the subscription price of HK\$0.45 per share, resulting in the issue of 1,873,000 shares for a total cash consideration, before expenses, of approximately HK\$843,000. An amount of HK\$4,343,000 was transferred from the share option reserve to share premium upon the exercise of the share options.
- (b) Subsequent to 30 June 2021, the subscription rights attaching to 1,723,000 share options were exercised at the subscription price of HK\$0.45 per share, resulting in the issue of 1,723,000 shares for a total cash consideration, before expenses, of approximately HK\$775,000.

14. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company operates a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Pre-IPO Share Option Scheme include senior management and employees of the Group. The Pre-IPO Share Option Scheme was approved and conditionally adopted by the shareholders of the Company on 22 May 2019 and, unless otherwise cancelled or amended, will remain in force for 10 years from the effective date of the Pre-IPO Share Option Scheme.

There were 3,976,000 (31 December 2020: 4,502,000) outstanding share options under the Pre-IPO Share Option Scheme as at 30 June 2021. During the six months ended 30 June 2021, the Group recognised equity-settled share option expenses of approximately HK\$1,055,000 in staff costs in the consolidated statement of profit or loss.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings of the Company.

During the six months ended 30 June 2021, 525,000 share options had been forfeited and 1,000 share options had lapsed under the Pre-IPO Share Option Scheme.

(b) Post-IPO share option scheme

The Company operates a post-IPO share option scheme (the “Post-IPO Share Option Scheme”) for the purpose of motivating eligible persons to optimise their performance and efficiency for the benefit of the Group and to attract and retain or otherwise maintain ongoing relationships with such eligible persons whose contributions are expected to be/will be beneficial to the Group. The Post-IPO Share Option Scheme was approved and conditionally adopted by the shareholders of the Company on 22 May 2019 and, unless otherwise cancelled or amended, will remain in force for 10 years commencing on the effective date of the Post-IPO Share Option Scheme.

Since the adoption date of the Post-IPO Share Option Scheme and up to 30 June 2021, no share options of the Company were granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Board of Directors (the “Board”) of Tai Hing Group Holdings Limited, together with its subsidiaries (“Tai Hing Group” or the “Group”), is pleased to announce the Group’s interim results for the six months ended 30 June 2021 (“1H2021” or the “Review Period”), together with the comparative figures for the corresponding period of 2020 (“1H2020”).

The outbreak of the COVID-19 was largely brought under control during the Review Period, and market confidence and consumption sentiment were gradually restored as a result. However, the market still faced a number of challenges and continued uncertainty due to various anti-epidemic measures, including those tight social distancing regulations implemented by the Hong Kong Government before the Chinese New Year, though slightly relaxed with the roll-out of vaccination program, as well as lockdowns imposed in some cities of Guangdong Province, Mainland China in response to a surge in new cases. While these measures inevitably affected the Group’s business in both Hong Kong and Mainland China, the Group has been well-equipped with extensive experience in coping with the effects of the pandemic and has taken swift action to mitigate their impact. As a result, the Group was still able to record satisfactory overall revenue for the Review Period, with a year-on-year increase of 16.4% to reach HK\$1,532.7 million in 1H2021 (1H2020: HK\$1,316.9 million).

Hong Kong remains the Group’s principal market. During the Review Period, the Hong Kong, Macau and Taiwan markets collectively contributed to revenue of HK\$1,177.1 million (1H2020: HK\$1,135.5 million), an increase of 3.7% as compared with the same period last year. The Mainland China market, meanwhile, contributed HK\$355.6 million in revenue in 1H2021 (1H2020: HK\$181.4 million), up 96.0% as compared with 1H2020. The Group’s gross profit and gross profit margin were HK\$1,100.9 million (1H2020: HK\$928.4 million) and 71.8% (1H2020: 70.5%), respectively, aided by the economies of scale achieved through the operation of one food factory in Hong Kong and another in Mainland China, alongside the bulk purchase discounts provided by suppliers. The Group’s profit attributable to owners of the Company during 1H2021 amounted to HK\$33.4 million (1H2020: HK\$8.4 million). Basic earnings per share attributable to owners of the Company were HK3.34 cents (1H2020: HK0.84 cents).

The Group’s financial position remains positive, with sufficient cash and a healthy operating cash flow that has enabled it to withstand the current headwinds and fuel further growth. As at 30 June 2021, the Group had cash and cash equivalents of HK\$518.5 million (as at 31 December 2020: HK\$562.1 million).

Operating Costs

Cost of Materials Consumed

The cost of materials consumed amounted to HK\$431.7 million (1H2020: HK\$388.5 million) for the Review Period. Having operated a food production facility in Mainland China since October 2018, in addition to its established factory in Hong Kong, the Group has been able to increase its production output and improve its efficiency, allowing for greater economies of scale. The Group has also benefitted from discounts obtained through bulk purchasing, and has negotiated with its suppliers for higher discounts amid ongoing external uncertainty. Furthermore, the Group has introduced universal menu options on some high growth brands, in order to achieve greater flexibility. Consequently, the Group has been able to effectively control its food costs.

Staff Costs

The Group has implemented flexible work arrangements since the onset of the pandemic. Employees are able to take leave during non-peak periods, optimising manpower and ensuring that the Group's operations remain unaffected. Besides, the Group simplified the workflows of certain high-growth brands, which resulted in a reduction in manpower. However, staff costs rose to HK\$534.4 million in 1H2021 (1H2020: HK\$449.0 million) due to the absence of the Employment Support Scheme ("ESS") subsidies from the Hong Kong Government. Nonetheless, it is worth noting that if ESS subsidies were excluded, the staff costs to revenue ratio would have decreased during the Review Period, as compared with that of 1H2020.

Amortisation of Right-of-Use Assets, Rental and Related Expenses

During 1H2021, the Group's amortisation of right-of-use assets, rental and related expenses amounted to HK\$251.6 million (1H2020: HK\$218.3 million) with related finance costs of HK\$19.3 million (1H2020: HK\$19.7 million). The Group continued to negotiate with landlords for rent reductions and other concessions in the face of the negative impact of the pandemic. It also placed greater effort on internal analysis for rental arrangements, which helped to reduce rental and related expenses. Accordingly, rental and related expenses to revenue ratio had slightly decreased during the Review Period.

Industry Review

According to data released by the Hong Kong Government's Census and Statistics Department, the estimated aggregate revenue generated by restaurants in Hong Kong in the second quarter of 2021 was HK\$23.3 billion, representing a year-on-year increase of 9.9%¹, reflecting that Hong Kong food and beverage industry rebounded along the stable local epidemic situation and improved market confidence and consumption sentiment.

Prospects in Mainland China were also positive. The economy has continued to recover in the wake of the pandemic, with the National Bureau of Statistics having announced that the country's GDP grew by 7.9% in the second quarter of the year when compared with the same period last year². The local catering industry also recorded encouraging results, with revenue totalling RMB2171.2 billion for the period from January to June 2021, an increase of 48.6% over the corresponding period of last year³. However, the possibility of having a second wave of COVID-19, coupled with sporadic regional outbreaks, means that there is still cause for concern for the catering sector.

Geographical Analysis

In Hong Kong, the restrictions on catering businesses have been partially relaxed in recent months, with anti-epidemic measures such as social distancing policies and vaccine rollouts proving effective in controlling the pandemic. While an improvement in consumption sentiment has been observed during the Review Period, the sector has yet to see a return to normal in terms of dine-in level, and the Group has therefore continued to increase its efforts in boosting sales from takeaway and delivery services. As a result, revenue from such services to total revenue for the Group's restaurant operations was approximately 28.0% during 1H2021, offsetting the decline in dine-in revenue.

As for the Group's operations in Mainland China, another wave of COVID-19 that erupted in late May across Guangdong province posed a challenge for many restaurant chains, and the Group's business was no exception. With several major regions, such as Guangzhou, having been in lockdown in order to control the spread of the new outbreak, local eating establishments were inevitably impacted. However, high-growth brands, such as "Men Wah Bing Teng (敏華冰廳)", that cater for the mass market performed encouragingly during the Review Period, and the Group consequently opened six new restaurants under the "Men Wah Bing Teng" brand in 1H2021. Going forward, the uncertainty surrounding further potential outbreaks and subsequent lockdown measures is likely to pose new challenges for the catering sector. The Group will continue to closely monitor the situation in order to adapt its operations accordingly and maintain its profitability.

¹ Census and Statistics Department
https://www.censtatd.gov.hk/en/data/stat_report/product/B1080002/att/B10800022021QQ02B0100.pdf

² The National Bureau of Statistics of China
http://www.stats.gov.cn/english/PressRelease/202107/t20210719_1819688.html

³ The National Bureau of Statistics of China
http://www.stats.gov.cn/english/PressRelease/202107/t20210716_1819547.html

Business Segment Analysis

“Tai Hing” is a multi-brand casual dining restaurant group headquartered in Hong Kong, with a market presence stretching more than three decades. In addition to its flagship “Tai Hing (太興)” brand, the Group has launched, acquired and licensed a number of brands over the years. This expansive portfolio currently includes “TeaWood (茶木)”, “Trusty Congee King (靠得住)”, “Men Wah Bing Teng (敏華冰廳)”, “Phở Lê (錦麗)”, “Tokyo Tsukiji (東京築地食堂)”, “Fisher & Farmer (漁牧)”, “Rice Rule (飯規)”, “Hot Pot Couple (夫妻沸片)”, “King Fong Bing Teng (瓊芳冰廳)”, “Asam Chicken Rice (亞參雞飯)”, “Daocheng (稻埕飯店)”, “Dumpling Station (餃子駅)” and “Dimpot (點煲)”, providing its customers with a multitude of dining options.

As at 30 June 2021, the Group had a network of 223 restaurants (as at 31 December 2020: 213 restaurants) in Hong Kong, Mainland China, Macau and Taiwan.

The “Men Wah Bing Teng” brand continued to serve as one of the major catalysts boosting the Group’s sales. Having outperformed the market in 1H2021, the business achieved significant revenue growth during the period, increasing by 63.4% to HK\$345.0 million (1H2020: HK\$211.2 million). It was also the Group’s second-largest revenue contributor during the Review Period, accounting for 22.5% (1H2020: 16.0%) of the Group’s total revenue in 1H2021. In light of the brand’s impressive sales revenue, the Group opened six new stores in both Hong Kong and Mainland China in 1H2021. In order to maintain its pace of growth, the Group will exert further efforts in the promotion of “Men Wah Bing Teng” in the Greater Bay Area as well as other potential markets.

“Asam Chicken Rice” was another fast-growing revenue contributor of the Group in 1H2021, with impressive revenue growth of 873.2% to HK\$57.42 million (1H2020: HK\$5.90 million) and same-store sales growth reaching a high single-digit percent during the Review Period. The brand’s eateries have proved popular among office workers in premier districts and families in residential areas, with takeaway orders being particularly strong. During 1H2021, the Group opened five new “Asam Chicken Rice” restaurants — hence a total of 11 branches in Hong Kong, which are located principally in core business and residential districts and cater for the dining needs of consumers in those locations. By in large, the new branches received favourable market response during the Review Period, which led to a ninefold increase in revenue when compared with that of 1H2020. The profitability of “Asam Chicken Rice” was also more competitive owing primarily to less manpower required in the kitchen and more universal menu options.

As the Group’s signature brand, “Tai Hing” is a well-recognised name in the mass market and continues to be a stable source of revenue. With the majority of its restaurants located in shopping malls or within well-populated communities, it has successfully captured the demand arising from the work-from-home trend. In order to remain aligned with current local catering trends, the Group is currently reviewing the brand positioning and consolidating its store network, with an enhancement review expected to be conducted in the near term with an aim to fully unleash the brand’s market potential. During 1H2021, the “Tai Hing” brand generated revenue totalling HK\$734.3 million (1H2020: HK\$692.6 million), which represents 48.0% of the Group’s total revenue for the Review Period.

“TeaWood” remained the Group’s third-largest revenue contributor during the Review Period, having achieved revenue of HK\$178.7 million (1H2020: HK\$204.9 million), which represents 11.7% (1H2020: 15.6%) of the Group’s total revenue in 1H2021. In order to ensure that the brand maintains its satisfactory performance, the Group will continue to adjust the menus of its brand portfolio and utilise effective marketing strategies to keep up with current consumption trends.

Having introduced several new brands including “Daocheng (稻埕飯店)”, “Dumpling Station (餃子駅)” and “Dimpot (點煲)” to the market during the preceding financial year, the Group will continue to nurture and enhance these new brands to ensure that they reach their full potential.

With the dine-at-home trend having gained momentum in the wake of the pandemic, the Group has placed greater emphasis on enhancing its takeaway and delivery operations. It continued to work with leading third-party food ordering platforms, both in Hong Kong and Mainland China while continuing to advance its self-developed digital mobile APP, “Fanfanslife”, and enhance its membership program to strengthen customer loyalty and for direct marketing to reduce cost. In addition, the Group has further developed its line of ready-to-eat products in order to capitalise on the increasing dine-at-home trend.

Prospects and Business Strategies

With its successful multi-brand strategy, the Group is well positioned to take advantage of opportunities under the current market conditions. It will therefore continue to negotiate with landlords for rent reductions and other concessions, in order to strengthen its control over rental and related expenses in the next three years. Meanwhile, as the Group’s multi-brand strategy remains key to its future development, it will strategically integrate its brand portfolio in response to marketing performance. It will also continue to steadily expand its restaurant network in a prudent and pragmatic manner. A principal focus of this expansion plan — covering both Mainland China and Hong Kong, will centre on the Group’s high-growth brands which have enjoyed remarkable success and generated high returns, such as “Men Wah Bing Teng”. In addition, with the Southeast Asian cuisine brand “Asam Chicken Rice”, which was launched in late 2019, having received such a positive market response, the Group has plans to introduce it to the Mainland China market later this year. The Group will continue to develop and launch new brands in both Hong Kong and Mainland China based on market trends and customer preferences. To this end, more new casual dining brands are set to be introduced to both markets in the near future.

In order to support its rapid business growth in the future, the Group will further optimise the production capacity of its food factories in both Mainland China and Hong Kong as well as improve the quantity, variety and quality of output from such factories through “direct procurement and centralised production”, and thus effectively reduce food costs and bolster the Group’s competitiveness. It is worth noting that the food factory in Dongguan recorded a profit and achieved an increase in production capacity in 1H2021, and the Group hopes to emulate this success at both of its factories going forward.

Regarding the HK\$5,000 consumption voucher introduced by the Hong Kong Government as part of the Consumption Voucher Scheme (“the Scheme”) to encourage public support of the local retail, catering and service sectors, the first batch of consumption vouchers were issued on 1 August 2021. The Group has been buoyed by the public response and plans to further capture opportunities by co-operating with various designated digital payment platforms and with corporations and shopping malls in Hong Kong to attract more consumers. In addition, the Group will also give full play to its multi-brand advantages and launch special promotions relating to the Scheme, so as to enhance the appeal of its restaurants among consumers and capitalise on the synergies generated among the brands. Given Tai Hing Group’s positioning as a multi-brand casual dining restaurant group targeting the general public, it is confident that the Scheme can help boost its sales performance in the second half of this year.

The Group has taken a conservative approach in allocating resources to marketing activities over the past year due to the lingering pandemic situation and poor market sentiment. However, with the pandemic being brought under control in Hong Kong, the Group will bolster its marketing efforts going forward in order to stimulate consumption at its restaurants and revitalise its brand image. This will begin with the launch of marketing campaigns for the “Tea Wood” brand through online and offline cross-platform promotions to attract high-quality consumers with strong purchasing power. With respect to the Group’s signature brand, “Tai Hing” and high-growth brand “Men Wah Bing Teng”, a series of marketing activities focusing on promoting the brands’ hero products will be launched in accordance with the strategic goal of further boosting consumption and increasing revenue.

In view of the global digitisation trend, the Group will continue to further increase its level of systematic digitalisation and increase automation so as to improve the efficiency of its restaurant operations. The Group will also develop its first integrated digital mobile application with the aim of enhancing and improving its customer relationship management. In addition, by utilising big data applications, the Group will be able to increase both the effectiveness and flexibility in which marketing resources are allocated, leading ultimately to greater patronage and stronger loyalty from target customers. Furthermore, by leveraging the Group’s solid customer base, it will be able to develop online sales and delivery platform as well as promote the cross-selling of its products in the future. With this in mind, it will dedicate greater resources to the deployment of various advanced technology systems, upgrade its IT systems, and utilise big data applications, with the ultimate objective of supporting the expansion of the Group’s restaurant network and facilitating sustainable development in the long run.

Given the constantly evolving pandemic situation, the Group remains cautiously optimistic about its prospects in the remaining year. However, the pace and degree of the market’s recovery will be very much dependent on how fully the virus subsides in the near future. The Group will therefore continue to closely monitor market developments and will take proactive and appropriate steps to facilitate continuous business growth based on the external environment. The management remains confident in the Group’s ability to withstand the current headwinds and move towards a more favourable trajectory once market conditions improve.

INTERIM DIVIDEND

The Board has declared the payment of an interim dividend of HK2.50 cents per share (six months ended 30 June 2020: HK1.30 cents per share) for the six months ended 30 June 2021 payable to the shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company on Wednesday, 13 October 2021. The dividend warrants of the interim dividend are expected to be despatched to the Shareholders on or before Thursday, 4 November 2021.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the interim dividend for the six months ended 30 June 2021, the register of members of the Company will be closed from Monday, 11 October 2021 to Wednesday, 13 October 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend for the six months ended 30 June 2021, all transfer forms duly accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 8 October 2021.

FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE, EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND OTHERS

Liquidity and Financial Resources

The principal sources of funds for the Group are through a combination of internally generated cash flows, bank borrowings and proceeds received from Listing. As at 30 June 2021, the Group’s cash and cash equivalents were approximately HK\$518.5 million (31 December 2020: approximately HK\$562.1 million). The majority of the bank deposits and cash were denominated in Hong Kong dollars and Renminbi. The additional funds raised from Listing would be used for implementing the future expansion plan.

As at 30 June 2021, the Group’s total current assets and current liabilities were approximately HK\$744.2 million (31 December 2020: approximately HK\$813.9 million) and approximately HK\$990.9 million (31 December 2020: approximately HK\$1,009.3 million), respectively, while the current ratio of the Group (calculated by dividing total current assets by total current liabilities at the end of respective periods) was approximately 0.8 times (31 December 2020: approximately 0.8 times).

The Group had interest-bearing bank borrowings of approximately HK\$120.0 million as at 30 June 2021 (31 December 2020: approximately HK\$78.8 million). The interest-bearing bank borrowings were secured, denominated in Hong Kong dollars and subject to floating rate basis. During the six-month period ended 30 June 2021, there were no financial instruments used for hedging purposes.

As at 30 June 2021, the gearing ratio of the Group (calculated by dividing the interest-bearing bank borrowings by equity attributable to owners of the Company) was approximately 11.4% (31 December 2020: approximately 7.3%).

Foreign Currency Risk

The Group's revenue and costs are mostly denominated in Hong Kong dollars and Renminbi. The change in value of the Renminbi against the Hong Kong dollars may fluctuate and is affected by changes in China's political and economic conditions. The appreciation or devaluation of the Renminbi against Hong Kong dollars may affect the Group's results. The Group does not have any currency hedging policy and has not entered into any hedging or other instrument to reduce currency risks. The Group will continue to closely monitor the foreign currency exposure and take appropriate measures to minimize the risk when necessary.

Contingent Liabilities

As at 30 June 2021, the Group had contingent liabilities of approximately HK\$47.5 million (31 December 2020: approximately HK\$40.1 million) in respect of bank guarantees given in favour of the landlords in lieu of rental deposits.

CHARGE ON GROUP ASSETS

As at 30 June 2021, the Group had certain property, plant and equipment and right-of-use assets with an aggregate net carrying value of approximately HK\$248.0 million (31 December 2020: HK\$253.0 million) pledged to secure the bank borrowings granted to the Group.

MATERIAL ACQUISITIONS AND DISPOSAL

Save as disclosed herein, for the six months ended 30 June 2021, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments nor capital commitment.

EMPLOYEES

The Group had approximately 7,200 employees as at 30 June 2021 (31 December 2020: approximately 6,900). The Group ensures that its employees are remunerated in line with market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

SHARE OPTION SCHEMES

The Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme of the Company (the "Share Option Schemes") were approved and conditionally adopted pursuant to the resolutions passed by the Shareholders on 22 May 2019 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group.

The principal terms of the Share Option Schemes are set out in “Appendix V (Statutory and General Information — D. Share Option Schemes)” to the Prospectus of the Company dated 30 May 2019. During the six months ended 30 June 2021, 526,000 share options granted under the Pre-IPO Share Option Scheme were lapsed. There were 3,976,000 outstanding share options of the Company under the Pre-IPO Share Option Scheme as at 30 June 2021. Since the Adoption Date of the Post-IPO Share Option Scheme and up to 30 June 2021, no share options of the Company were granted under the Post-IPO Share Option Scheme.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 30 June 2021 and up to the date of this announcement.

AUDIT COMMITTEE REVIEW AND REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed with the management of the Company (the “Management”) the accounting principles and practices adopted by the Group and discussed with the Management regarding the risk management and internal controls systems and financial reporting matters including a general review of the interim report (including unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021).

The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2021 has also been reviewed by the Group’s external auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2021.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.taihing.com). The interim report of the Company for the six months ended 30 June 2021 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Tai Hing Group Holdings Limited
Chan Wing On
Chairman

Hong Kong, 26 August 2021

As at the date of this announcement, the Board comprises:

Executive Directors

Mr. Chan Wing On (Chairman), Mr. Yuen Chi Ming, Mr. Lau Hon Kee and Ms. Chan Shuk Fong

Non-Executive Director

Mr. Ho Ping Kee

Independent Non-Executive Directors

Mr. Mak Ping Leung (alias: Mak Wah Cheung), Mr. Wong Shiu Hoi Peter and Dr. Sat Chui Wan