

唐宮(中國)控股有限公司

TANG PALACE (CHINA) HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1181



2012
Interim Report





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Corporate Information

Directors

Executive Directors

Mr. Yip Shu Ming (*Chairman*)
Mr. Chan Man Wai (*Vice-Chairman*)
Mr. Ku Hok Chiu
Ms. Weng Peihe

Independent Non-Executive Directors

Mr. Kwong Chi Keung
Mr. Kwong Ping Man
Mr. Cheung, Kin Ting Alfred

Company Secretary

Mr. Wong Chung Yeung, *CPA*

Authorised Representatives

Mr. Chan Man Wai
Mr. Wong Chung Yeung, *CPA*

Members of Audit Committee

Mr. Kwong Ping Man (*Chairman*)
Mr. Kwong Chi Keung
Mr. Cheung, Kin Ting Alfred

Members of Nomination Committee

Mr. Cheung, Kin Ting Alfred (*Chairman*)
Mr. Kwong Ping Man
Mr. Kwong Chi Keung

Members of Remuneration Committee

Mr. Kwong Chi Keung (*Chairman*)
Mr. Cheung, Kin Ting Alfred
Mr. Kwong Ping Man

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

Unit 3, 10th Floor
Greenfield Tower
Concordia Plaza
No. 1 Science Museum Road
Kowloon
Hong Kong

Cayman Islands Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong)
Wing Hang Bank
Industrial and Commercial Bank of China

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
(resigned on 14 September 2012)
Ernst & Young
Certified Public Accountants
(appointed on 14 September 2012)

Legal Advisor

As to Hong Kong law:
Robertsons

As to PRC's law:
Beijing Bairui (Shenzhen) Law Firm

Compliance Advisor

Cinda International Capital Limited

Stock Code

The Stock Exchange of Hong Kong Limited:
1181

Website

www.tanggong.cn

Management Discussion and Analysis

Business review

With the ongoing European sovereign debt crisis causing global economic instability, the Chinese economy has also been showing a slowdown in growth. The year-on-year consumer price index growth in China in the first half of 2012 is declined from 4.5% in January to 2.2% in June. The Group still managed to achieve revenue of RMB391.9 million for the six months ended 30 June 2012 (the “Period”), showing an increase of 6.1%, as compared to RMB369.3 million for the six months ended 30 June 2011. Operating margin increased by 1.9%, from 56.9% for the first half of 2011 to 58.8% for the first half of 2012, which was due to the increasing efficiency of central procurement. Profit and total comprehensive income for the six months ended 30 June 2012 amounted to RMB25.7 million, showing an increase of 144.3%, as compared to RMB10.5 million for the first half of 2011. Excluding the listing and related expenses of RMB13.4 million incurred in the first half of 2011, the profit and total comprehensive income for the Period has increased by 7.4%. Basic earnings per share for the Period was RMB6.19 cents, as compared to RMB3.04 cents for the first half of 2011.

As at 30 June 2012, we operated 30 restaurants located in Beijing, Tianjin, Shanghai, Suzhou, Hangzhou, Shenzhen, and Dongguan. In addition, we have one food plant in Shanghai, which was primarily established to provide food production services to our restaurants. We believe our plan on expanding both Chinese restaurants as our core business and fast food and casual dining restaurants as a future revenue driver is an appropriate strategy in tapping the enlarging customer base from middle to high-end spenders in China, hence achieving continuous revenue growth.

The table below illustrates the number of restaurants, average spending per customer, and percentage of revenue contributed to the Group by major brands:

Brand	No. of restaurants for the six months ended 30 June		Average spending per customer for the six months ended 30 June		Percentage of revenue contributed to the Group for the six months ended 30 June	
	2012	2011	2012	2011	2012	2011
			RMB	RMB		
Tang Palace Seafood Restaurant (唐宮海鮮舫)	14	12	172.5	150.1	67.0%	68.0%
Tang's Cuisine (唐宮壹號)	2	2	352.9	303.7	9.4%	10.5%
Excellent Tang Palace (盛世唐宮)	2	2	104.5	83.4	9.3%	9.0%
Tang Palace Restaurant (唐宮膳)	2	2	106.1	100.5	9.3%	10.0%
Pepper Lunch (胡椒廚房)	8	4	42.0	56.7	3.5%	0.8%

Management Discussion and Analysis

Outlook and prospect

For the Group's continuous development and revenue growth, our strategy is to enlarge our customer base in different catering businesses through continuous expansion of our restaurant network including opening new Chinese restaurants and Pepper Lunch restaurants. Targeting young diners, we also seek out quality partners such as the PappaRich Group, which will be one of our future developments in the casual dining business in coming years. Expanding our network in first and second tier cities continues to be our priority under the Group's strategy on targeting high-end spenders. To achieve this, we closely cooperate with branded hotel chain groups, as well as long-established local hotel groups and renowned property groups to enhance our brand reputation. In the second half of 2012, a number of Chinese restaurants and Pepper Lunch restaurants will be opened in Beijing, Shanghai, Tianjin and Macau. In addition, the cooperation between the Group and the PappaRich Group will strategically introduce a stylish Southeast Asian dining experience into Mainland China, Hong Kong and Macau, aimed at tapping the tremendous domestic consumption market in the region.

We gradually build up our presence in the banqueting market, from attending wedding expos, cooperating with local wedding planners to catering large scale events. In addition, to improve the Group's revenue during low season, we have strengthened our special menus for seasonal festivals and take-away packaged products. All of these will facilitate more pre-booking orders, hence better food supply estimation, more efficient centralised procurement system and ultimate goal in lowering overall cost of inventories consumed.

During the Period, we obtained awards and certifications in respect of our food, services and management. The following table sets forth our recent awards and certifications:

Award/Certificate	Awarding and Issuing Authority
2011 National Top 100 Catering Services Award (2011年度中國餐飲百強企業)	China Cuisine Association (中國烹飪協會) China General Chamber of Commerce (中國商業聯合會) China National Commercial Information Center (中華全國商業信息中心)
National Outstanding Enterprise (全國餐飲業優秀企業)	China Cuisine Association (中國烹飪協會)
National Trust Worthy Unit with Quality Services (全國質量服務信得過單位)	Social Survey Centre (中國國情調查委員會) China Foundation of Consumer Protection (中國保護消費者基金會)
National Trust Worthy Brand on Consumer Protection (全國關心保護消費者權益信用品牌)	Social Survey Centre (中國國情調查委員會) China Foundation of Consumer Protection (中國保護消費者基金會)

Management Discussion and Analysis

Award/Certificate	Awarding and Issuing Authority
Top 10 Restaurants in Suzhou (蘇州市十佳飯店)	Suzhou Health Bureau (蘇州市衛生局) Suzhou Food and Drug Administration Bureau (蘇州市食品藥品監督管理局)
“A” Unit on Food Safety Quantitative Monitoring (食品安全監督量化分級管理A級單位)	Zhejiang Food and Drug Administration (浙江省食品藥品監督管理局)

With the uncertainty of the growth of the Chinese economy in the second half of 2012, it would be essential for the Group to further enhance our cost control policy, to broaden the customer base and to boost customer spending in order to generate continuous revenue growth. We will strengthen our centralised procurement system through cooperating with large credible suppliers and allowing traceable sourcing of food. In addition, steady expansion on Chinese restaurant network in first and second tier cities in China continues to be our strategy, while developing Pepper Lunch restaurants and other casual dining businesses will be our future highlights. We will also maintain our focus on improving our food quality, hygiene of our food products and the quality of services. We believe all these comprise our core values and striking for excellence of such is the key to our continuous success in the restaurant industry.

Financial review

Revenue

The Group's revenue increased by RMB22.6 million, or by 6.1%, from RMB369.3 million for the six months ended 30 June 2011 to RMB391.9 million for the six months ended 30 June 2012, which was mainly attributable to the revenue growth of the existing restaurants and the opening of additional seven restaurants from 1 July 2011 to 30 June 2012, including two Chinese restaurants, one Japanese restaurant and four Pepper Lunch fast food restaurants.

Other income and gains

Other income and gains increased by RMB3.0 million, or by 50.2%, from RMB5.9 million for the six months ended 30 June 2011 to RMB8.9 million for the Period. Such increase was mainly due to the increase in commission income in respect of sales of tea products and increase in bank interest income arising from depositing unutilised proceeds from our initial public offering.

Cost of inventories consumed

Cost of inventories consumed increased by RMB2.3 million, or by 1.4%, from RMB159.3 million for the six months ended 30 June 2011 to RMB161.6 million for the Period, primarily due to the revenue growth of the existing restaurants and the opening of the new restaurants. As a percentage of revenue, cost of inventories consumed decreased from 43.1% for the six months ended 30 June 2011 to 41.2% for the Period, revealing our central procurement system has started to come into effect in lowering our cost.

Management Discussion and Analysis

Staff cost

Staff cost increased by RMB11.3 million, or by 12.7%, from RMB89.3 million for the six months ended 30 June 2011 to RMB100.6 million for the Period. As a percentage of revenue, staff cost increased from 24.2% for the six months ended 30 June 2011 to 25.7% for the Period. The increase in staff cost was primarily due to an overall increase in the level of salaries and other employee benefits, as well as increase in staff force which resulted from the opening of new restaurants.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment increased by RMB3.4 million, or by 24.1%, from RMB14.1 million for the six months ended 30 June 2011 to RMB17.5 million for the Period. As a percentage of revenue, depreciation of property, plant and equipment increased from 3.8% for the six months ended 30 June 2011 to 4.5% for the Period. The increase mainly represented depreciation incurred in connection with the equipment acquired for the new restaurants.

Utilities and consumables

Utilities and consumables increased by RMB3.5 million, or 17.1%, from RMB20.2 million for the six months ended 30 June 2011 to RMB23.7 million for the Period. As a percentage of revenue, utilities and consumables slightly increased from 5.5% for the six months ended 30 June 2011 to 6.0% for the Period.

Rental and related expenses

Rental and related expenses increased by RMB5.0 million, or by 17.9%, from RMB28.3 million for the six months ended 30 June 2011 to RMB33.3 million for the Period. As a percentage of revenue, rental and related expenses increased from 7.7% for the six months ended 30 June 2011 to 8.5% for the Period. The increase was mainly attributable to the opening of the new restaurants.

Other expenses

Other expenses, mainly comprising professional fees, sales and marketing expenses, administrative expenses, donations, bank charges and miscellaneous expenses, amounted to RMB26.0 million for the Period compared to RMB25.6 million for the six months ended 30 June 2011.

Income tax expense

Income tax expense decreased by RMB1.4 million, or by 10.0%, from RMB13.9 million for the six months ended 30 June 2011 to RMB12.5 million for the Period. The Group's effective income tax rate decreased from 56.9% for the six months ended 30 June 2011 to 32.7% for the Period. The effective tax rate is higher than the statutory tax rate of 25% in the People's Republic of China (the "PRC") was mainly due to tax credit was not recognised for those newly opened restaurants.

Management Discussion and Analysis

Profit and total comprehensive income for the Period

The Group's profit and total comprehensive income for the Period increased by RMB15.2 million, from RMB10.5 million for the six months ended 30 June 2011 to RMB25.7 million for the Period, mainly due to increase in revenue during the Period and one-off listing and related expenses of RMB13.4 million was incurred in first half of 2011.

Cash flow

Cash and cash equivalents decreased by RMB45.6 million from RMB293.6 million as at 31 December 2011 to RMB247.9 million as at 30 June 2012.

Net cash of RMB40.7 million was generated in operating activities for the Period. Net cash used in investing activities amounted to RMB56.6 million for the Period, of which RMB58.4 million related to the purchase of property, plant and equipment.

Liquidity and financial resources

The Group's funding and treasury activities are managed and controlled by the senior management. The Group maintained cash and bank balances of RMB247.9 million as at 30 June 2012 (31 December 2011: RMB293.6 million). As at 30 June 2012, the Group's total assets, net current assets and net assets were RMB456.2 million (31 December 2011: RMB455.4 million), RMB171.2 million (31 December 2011: RMB215.9 million) and RMB335.9 million (31 December 2011: RMB339.3 million), respectively.

As at 30 June 2012, the Group had no bank borrowings (31 December 2011: Nil). The gearing ratio was nil as at 30 June 2012 (31 December 2011: Nil).

As at 30 June 2012, the current ratio (current assets divided by current liabilities) was 2.4 (31 December 2011: 2.9).

The directors are of the opinion that the Group has sufficient working capital for the Group's operations and expansion in the near future.

Foreign currency exposure

The business operations of the Group's subsidiaries were conducted mainly in the PRC with revenues and expenses of the Group's subsidiaries denominated mainly in RMB. The Group's cash and bank deposits were denominated mainly in RMB, with some denominated in Hong Kong dollars. Any significant exchange rate fluctuations of Hong Kong dollars against RMB as the functional currency may have a financial impact to the Group.

As at 30 June 2012, the directors considered the Group's foreign exchange risk to be insignificant. During the Period, the Group did not use any financial instruments for hedging purposes.

Other Information

Listing of Shares on the Stock Exchange

Trading of shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) commenced on 19 April 2011. Immediately upon the listing, the total number of issued shares was 400,000,000 shares.

As part of the initial public offering (“**IPO**”), the Company has granted ICBC International Capital Limited, the sole global coordinator under the IPO, the over-allotment option (the “**Over-allotment Option**”) to cover any over-allocation under the placing tranche of the IPO. On 19 April 2011, the Over-allotment Option was exercised in full pursuant to which additional 15,000,000 shares were allotted and issued by the Company on 26 April 2011. Details of the exercise of the Over-allotment Option have been set out in the Company’s announcement dated 20 April 2011.

Directors’ and Chief Executive’s Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2012, the interests and short positions of the directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“**SFO**”)) as recorded in the register maintained by the Company under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as follows:

Name of Director	Number of ordinary shares ^(Note 1)			Percentage of the issued share capital of the Company
	Beneficial Owners	Held by controlled corporation	Total	
Ordinary shares of HK\$0.1 each of the Company				
Mr. Yip Shu Ming	–	102,920,000 (L) ^(Note 2)	102,920,000 (L)	24.73%
Mr. Chan Man Wai	–	147,000,000 (L) ^(Note 3)	147,000,000 (L)	35.32%
Mr. Ku Hok Chiu	–	44,200,000 (L) ^(Note 4)	44,200,000 (L)	10.62%
Ms. Weng Peihe	1,150,000 (L)	–	1,150,000 (L)	0.27%

Other Information

Notes:

- (1) The letter “L” denotes the directors’ long position in the shares of the Company or the relevant associated corporation.
- (2) These shares were held by Current Success Investments Limited, which is wholly owned by Mr. Yip Shu Ming. By virtue of the SFO, Mr. Yip is taken to be interested in the shares held by Current Success Investments Limited.
- (3) These shares were held by Best Active Investments Limited, which is wholly owned by Mr. Chan Man Wai. By virtue of the SFO, Mr. Chan is taken to be interested in the shares held by Best Active Investments Limited.
- (4) These shares were held by Bright Mind Investments Limited, which is wholly owned by Mr. Ku Hok Chiu. By virtue of the SFO, Mr. Ku is taken to be interested in the shares held by Bright Mind Investments Limited.

Save as disclosed above, as at 30 June 2012, none of the directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders’ Interests in Shares and Underlying Shares

As at 30 June 2012, the interests or short positions of the persons (other than a director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholders	Capacity/nature of interest	Number and class of securities ^(Note 1)	Approximately percentage of shareholding
Current Success Investments Limited ^(Note 2)	Beneficial owner	102,920,000 shares (L)	24.73%
Ms. Wong Sau Mui ^(Note 2)	Interest of spouse	102,920,000 shares (L)	24.73%
Best Active Investments Limited ^(Note 3)	Beneficial owner	147,000,000 shares (L)	35.32%
Ms. Au Yim Bing ^(Note 3)	Interest of spouse	147,000,000 shares (L)	35.32%
Bright Mind Investments Limited ^(Note 4)	Beneficial owner	44,200,000 shares (L)	10.62%

Other Information

Name of Shareholders	Capacity/nature of interest	Number and class of securities ^(Note 1)	Approximately percentage of shareholding
Ms. Ku Wai Man ^(Note 4)	Interest of spouse	44,200,000 shares (L)	10.62%
Orchid Asia IV, L.P. ^(Note 5)	Beneficial owner	33,082,000 shares (L)	7.95%
OAIV Holdings, L.P. ^(Note 5)	Interest of a controlled corporation	33,082,000 shares (L)	7.95%
Orchid Asia IV Group Management, Limited ^(Note 5)	Interest of a controlled corporation	33,082,000 shares (L)	7.95%
Orchid Asia IV Group, Limited ^(Note 5)	Interest of a controlled corporation	33,082,000 shares (L)	7.95%
Orchid Asia IV Investment, Limited ^(Note 5)	Interest of a controlled corporation	33,082,000 shares (L)	7.95%
YM Investment Limited ^(Note 5)	Interest of a controlled corporation	33,646,000 shares (L)	8.08%
Ms. Lam Lai Ming ^(Note 5)	Founder of a discretionary trust	33,646,000 shares (L)	8.08%
Mr. Li Gabriel ^(Note 5)	Founder of a discretionary trust	33,646,000 shares (L)	8.08%
ManageCorp Limited ^(Note 5)	Trustee	33,646,000 shares (L)	8.08%

Notes:

- (1) The letter "L" denotes the shareholder's long position in the Shares.
- (2) These shares were beneficially owned by Current Success Investments Limited, which was wholly owned by Mr. Yip Shu Ming. By virtue of the SFO, Mr. Yip is taken to be interested in the shares held by Current Success Investments Limited. Ms. Wong Sau Mui is the spouse of Mr. Yip. Under the SFO, Ms. Wong is taken to be interested in the shares in which Mr. Yip is interested.

Other Information

- (3) These shares were beneficially owned by Best Active Investments Limited, which was wholly owned by Mr. Chan Man Wai. By virtue of the SFO, Mr. Chan is taken to be interested in the shares held by Best Active Investments Limited. Ms. Au Yim Bing is the spouse of Mr. Chan. Under the SFO, Ms. Au is taken to be interested in the shares in which Mr. Chan is interested.
- (4) These shares were beneficially owned by Bright Mind Investments Limited, which was wholly owned by Mr. Ku Hok Chiu. By virtue of the SFO, Mr. Ku is taken to be interested in the shares held by Bright Mind Investments Limited. Ms. Ku Wai Man is the spouse of Mr. Ku. Under the SFO, Ms. Ku is taken to be interested in the shares in which Mr. Ku is interested.
- (5) So far as the directors are aware of, these shares were beneficially owned as to 33,082,000 shares by Orchid Asia IV, L.P. and as to 564,000 shares by Orchid Asia IV Co-investment, Limited. Orchid Asia IV, L.P. was wholly controlled by OAIV Holdings, L.P., which was in turn wholly controlled by Orchid Asia IV Group Management, Limited, which was in turn wholly controlled by Orchid Asia IV Group, Limited, which was in turn wholly controlled by Orchid Asia IV Investment, Limited, which was approximately 92.61% controlled by YM Investment Limited. Orchid Asia IV Co-investment, Limited was wholly controlled by YM Investment Limited. Under the SFO, OAIV Holdings, L.P., Orchid Asia IV Group Management, Limited, Orchid Asia IV Group, Limited, Orchid Asia IV Investment, Limited and YM Investment Limited were taken to be interested in the shares beneficially owned by Orchid Asia IV, L.P., and YM Investment Limited was taken to be interested in the shares beneficially owned by Orchid Asia IV Co-investment, Limited. Ms. Lam Lai Ming and Mr. Li Gabriel were also interested in YM Investment Limited through ManageCorp Limited as Trustee and were taken to be interested in the shares in which YM Investment Limited was interested.

Save as disclosed above, as at 30 June 2012, no person (other than a director or chief executive of the Company) had registered an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Share Option Schemes and Share Award Plan

(a) Pre-IPO Share Option Scheme

Pursuant to a pre-initial public offering share option scheme (the “**Pre-IPO Share Option Scheme**”) adopted by the Company on 25 March 2011, the Company had granted 4,000,000 options to eligible 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.

As at 30 June 2012, there were 2,604,000 outstanding options granted under the Pre-IPO Share Option Scheme which had not been exercised yet. Share options granted under the Pre-IPO Share Option Scheme are exercisable at HK\$0.825 per share and each of the said share options granted to him/her may exercise the share options (a) up to 30% thereof during the period from 20 April 2012 to 19 April 2013; (b) subject to (a), up to 60% thereof during the period from 20 April 2012 to 19 April 2014; and (c) subject to (a) and (b), all outstanding options during the period from 20 April 2012 to 19 April 2015.

Other Information

The following table disclosed movement in the Company's share option during the Period:

	Vesting period	Exercisable period	Exercise price	As at 1 January 2012	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed upon termination of employment during the period	As at 30 June 2012
Tranche 1	25/03/2011-19/04/2012	20/04/2012-20/04/2015	HK\$0.825	1,200,000	-	1,116,000	-	84,000	-
Tranche 2	25/03/2011-19/04/2013	20/04/2013-20/04/2015	HK\$0.825	1,200,000	-	-	-	84,000	1,116,000
Tranche 3	25/03/2011-19/04/2014	20/04/2014-20/04/2015	HK\$0.825	1,600,000	-	-	-	112,000	1,488,000
				4,000,000	-	1,116,000	-	280,000	2,604,000

The weighted average closing price of the shares immediately before the date on which the share options were exercised was HK\$1.67.

(b) Share Option Scheme

Pursuant to a share option scheme (the “**Share Option Scheme**”) adopted by the Company on 25 March 2011, the directors may invite participants to take up options at a price determined by the board of directors (the “**Board**”) 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. Up to and as at 30 June 2012, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

(c) Share Award Plan

The Company adopted a share award plan (the “**Share Award Plan**”) on 25 March 2011 pursuant to which the board may, subject to and in accordance with the rules of the Share Award Plan, make an award of shares to certain classes of eligible participants as specified in the Share Award Plan, as determined by the Board from time to time on the basis of the Board's opinion as to the proposed awardee's contribution and/or future contribution to the development and growth of the Group. The shares and other trust fund for the implementation of the Share Award Plan shall be administered by a trustee or trustees (the “**Share Award Plan Trustee**”) to be appointed by the Company.

Other Information

Under the Share Award Plan, the Board shall determine the eligibility of the eligible participants and the number of shares to be awarded (the “**Awarded Shares**”) and notify the Share Award Plan Trustee of the making of awards. The Share Award Plan Trustee shall then set aside the appropriate number of Awarded Shares pending the transfer and vesting to the relevant participants out of a pool of shares which shall comprise of, among others, shares either (1) transferred to it from any person (other than the Group) by way of gift; (2) purchased by the Share Award Plan Trustee out of the funds received by the Share Award Plan Trustee by way of gift or for nominal consideration; (3) subscribed for or purchased by the Share Award Plan Trustee out of the funds allocated by the Board out of the Group’s resources, subject to the terms and conditions of the rules of the Share Award Plan. The Share Award Plan Trustee may purchase shares on the Stock Exchange at the prevailing market price or off market. In respect of off-market transactions, purchases shall not be made with any connected person, nor shall the purchase price be higher than the lower of (1) the closing market price on the date of such purchase, and (2) the average closing market price for the five preceding trading days on which shares of the Company were traded on the Stock Exchange. In any given financial year of the Company, the maximum numbers of shares to be purchased by the Share Award Plan Trustee shall not exceed 10% of the total number of shares in issue of the Company at the beginning of such financial year. The Share Award Plan Trustee may also subscribe for new shares at par or at such other subscription price as instructed by the Board out of the Group’s contribution if the Board considers it appropriate to do so. The Company shall comply with the relevant Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) when granting the Awarded Shares.

The legal and beneficial ownership of the relevant Awarded Shares shall vest in the relevant selected participant within 10 business days after the latest of (1) the date specified on the notice of the award given by the Board to the Share Award Plan Trustee; and (2) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such selected participant as specified in the related notice of award have been attained and notified to the Share Award Plan Trustee by the Board in writing.

Unless early termination by the Board, the Share Award Plan shall be valid and effective for a term of 10 years commencing from the adoption date. Up to and as at 30 June 2012, no share had been awarded under the Share Award Plan.

Other Information

Audit Committee

The Company established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules pursuant to a resolution of our directors passed on 25 March 2011. The primary duties of the Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of the Company. Our Audit Committee comprises Mr. Kwong Ping Man, Mr. Kwong Chi Keung and Mr. Cheung, Kin Ting Alfred, all being independent non-executive directors. Mr. Kwong Ping Man is the chairman of the Audit Committee.

The Audit Committee of the Company has reviewed the unaudited condensed consolidated interim results and interim report of the Group for the Period.

Corporate Governance

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

The Company has complied with all the code provisions as set out in Appendix 14 to the Listing Rules (Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012)) throughout the Period.

Model Code

The Company has adopted its own code for securities transactions by directors on terms no less exacting than those set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries to all of the directors and all of the directors confirmed that they have complied with the required standards set out in the Model Code during the Period.

Capital Commitment

Our capital commitment for property, plant and equipment were approximately RMB7.0 million and RMB6.8 million as at 30 June 2012 and 31 December 2011, respectively.

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the Period, there was no material acquisition or disposal of subsidiaries or associated companies of the Company.

Other Information

Number and Remuneration of Employees

As at 30 June 2012, the Group had over 4,000 employees in Hong Kong and the PRC. The Group recognises the importance of human resources to its success, therefore qualified and experienced personnel are recruited for expansion of new restaurants. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industrial practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related bonus.

Use of IPO Proceeds

The Company raised an aggregate net proceeds of approximately HK\$164.2 million from the issuance of an aggregate of 115,000,000 shares (including exercise of the over-allotment option) of HK\$0.10 each in the Company pursuant to the Company's IPO. Up to 30 June 2012, the Group has used part of the net proceeds as follows:

Use of Proceeds	Available pursuant to the IPO (HK\$ million)	Net IPO proceeds		Unutilised as at 30 June 2012 (RMB million equivalent)
		Available pursuant to the IPO (RMB million equivalent)	Utilised since IPO (RMB million equivalent)	
Opening of about 8 new Chinese restaurants in certain first-tier and second-tier cities in the PRC	89.7	75.0	64.2	10.8
Opening of about 19 Pepper Lunch fast food restaurants in certain first-tier cities in the PRC	47.9	40.1	10.4	29.7
Sales and marketing promotion and brand awareness activities in certain first-tier cities, including launching of promotional campaigns and conducting of market surveys	10.2	8.5	8.1	0.4
General working capital	16.4	13.7	13.7	-
Total	164.2	137.3	96.4	40.9

The remaining net proceeds are mainly placed in reputable financial institutions as short term deposits.

Purchase, Sale or Redemption of Listed Securities

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The directors do not recommend the payment of an interim dividend for the Period (six months ended 30 June 2011: Nil).

Other Information

Appreciation

The Board would like to thank the management of the Group and all of 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

Yip Shu Ming

Chairman and Executive Director

Hong Kong, 24 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Revenue	3	391,929	369,328
Other income and gains	3	8,871	5,905
Cost of inventories consumed		(161,588)	(159,290)
Staff cost		(100,591)	(89,293)
Depreciation of property, plant and equipment		(17,469)	(14,081)
Utilities and consumables		(23,660)	(20,199)
Rental and related expenses		(33,314)	(28,264)
Finance costs		–	(757)
Listing and related expenses		–	(13,398)
Other expenses		(26,004)	(25,562)
Profit before tax	5	38,174	24,389
Income tax expense	6	(12,487)	(13,874)
Profit and total comprehensive income for the period attributable to owners of the Company		25,687	10,515
Earnings per share	9		
– basic (RMB cents)		6.19	3.04
– diluted (RMB cents)		6.16	3.03

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

		As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		139,762	98,860
Intangible assets		7,292	7,528
Rental deposits		13,890	13,367
Deferred tax assets		4,679	4,600
		165,623	124,355
Current assets			
Inventories		17,690	20,151
Trade and other receivables	10	24,934	17,331
Bank and cash balances		247,945	293,567
		290,569	331,049
Current liabilities			
Trade and other payables	11	113,662	107,690
Amount due to related parties		100	100
Tax payable		5,563	7,405
		119,325	115,195
NET CURRENT ASSETS		171,244	215,854
TOTAL ASSETS LESS CURRENT LIABILITIES		336,867	340,209
Capital and reserves			
Share capital	12	34,944	34,853
Reserves		300,973	304,406
Equity attributable to owners of the Company		335,917	339,259
Total Equity		335,917	339,259
Non-current liabilities			
Deferred tax liabilities		950	950
		336,867	340,209

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Statutory general reserve RMB'000	Share options reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	338	–	17,411	–	74,156	46,339	138,244
Profit and total comprehensive income for the period	–	–	–	–	–	10,515	10,515
Issue of shares pursuant to the group reorganisation	(170)	–	–	–	170	–	–
Issue of shares at a premium through initial public offering	8,398	130,165	–	–	–	–	138,563
Issue of shares by capitalisation of share premium account	25,027	(25,027)	–	–	–	–	–
Issue of shares at a premium through exercise of the over-allotment option	1,260	19,526	–	–	–	–	20,786
Transaction costs attributable to issue of shares	–	(6,335)	–	–	–	–	(6,335)
Recognition of equity-settled share-based payments	–	–	–	534	–	–	534
At 30 June 2011	34,853	118,329	17,411	534	74,326	56,854	302,307
At 1 January 2012	34,853	114,106	20,886	1,498	74,326	93,590	339,259
Profit and total comprehensive income for the period	–	–	–	–	–	25,687	25,687
Issue of shares at a premium through exercise of share options	91	660	–	–	–	–	751
Dividend paid	–	(30,530)	–	–	–	–	(30,530)
Recognition of equity-settled share-based payments	–	–	–	750	–	–	750
Share options lapsed upon termination of employment	–	–	–	(241)	–	241	–
At 30 June 2012	34,944	84,236	20,886	2,007	74,326	119,518	335,917

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	40,748	39,507
Net cash used in investing activities	(56,591)	(6,832)
Net cash (used in) from financing activities	(29,779)	98,111
Net increase (decrease) in cash and cash equivalents	(45,622)	130,786
Cash and cash equivalents at beginning of the period	293,567	126,902
Cash and cash equivalents at end of the period	247,945	257,688

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

1. General Information

Tang Palace (China) Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located at Unit 3, 10th Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong.

During the Period, the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in restaurant operation.

2. Basis of Preparation and Principal Accounting Policies

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The unaudited condensed consolidated 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 2011.

The accounting policies and basis of preparation adopted in the preparation of this unaudited condensed consolidated interim financial statements are consistent with those of the annual financial statements for the year ended 31 December 2011 except that the Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”, which include all Hong Kong Financial Reporting Standards, HKASs and interpretations) issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2012.

Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time which are pertinent to its operations and relevant to these unaudited condensed consolidated interim financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

2. Basis of Preparation and Principal Accounting Policies (Continued)

Changes in Accounting Policy and Disclosures (Continued)

The adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements.

The HKICPA has issued a number of new standards, interpretations and amendments to standards which are not effective for accounting period beginning on 1 January 2012. The Group has not early adopted these new and revised HKFRSs.

3. Revenue, Other Income and Gains

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Revenue		
Gross revenue	415,194	391,374
Less: sales related tax	(23,265)	(22,046)
	391,929	369,328
Other income and gains		
Interest income	1,968	449
Commission income (note)	4,968	4,140
Others	1,935	1,316
	8,871	5,905

Note: Commission income represents commission received or receivable in respect of sales of tea related products.

4. Segment Information

Segment revenues and results

The directors assess the performance of the operating segments based on geographical location of the Group's restaurants. Segment profit represents the profit earned by each segment without allocation of the expenses incurred by the Group's head office. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

4. Segment Information (Continued)

Segment revenues and results (Continued)

The following is an analysis of the Group's revenue and results by operating segments:

Six months ended 30 June 2012

	Southern China RMB'000	Eastern China RMB'000	Northern China RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE					
External sales	64,628	170,422	156,879	–	391,929
Inter-segment sales	–	1,743	–	(1,743)	–
Total	64,628	172,165	156,879	(1,743)	391,929
RESULTS					
Segment results	6,960	12,737	28,871	–	48,568
Interest income					1,499
Unallocated corporate expenses					(11,893)
Profit before tax					38,174

Six months ended 30 June 2011

	Southern China RMB'000	Eastern China RMB'000	Northern China RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE					
External sales	66,287	173,114	129,927	–	369,328
Inter-segment sales	–	13,165	–	(13,165)	–
Total	66,287	186,279	129,927	(13,165)	369,328
RESULTS					
Segment results	5,128	19,931	29,602	–	54,661
Interest income					208
Unallocated corporate expenses					(29,723)
Finance costs					(757)
Profit before tax					24,389

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

5. Profit Before Tax

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit before tax has been arrived at after charging:		
Directors' emoluments	1,984	1,814
Other staff costs	92,335	82,617
Retirement benefit scheme contribution, excluding those of directors	6,272	4,862
Total staff costs	100,591	89,293
Depreciation of property, plant and equipment	17,469	14,081
Amortisation of intangible assets	425	572

6. Income Tax Expense

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2011: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Enterprise income tax in the PRC		
Current tax	12,566	13,874
Deferred tax	(79)	–
	12,487	13,874

7. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

8. Share-Based Payment Transactions

Pre-IPO Share Option Scheme

Further details of the Pre-IPO Share Option Scheme are disclosed in the “Other Information” section.

The fair value of the share options at the date of grant determined using the binomial option pricing model is approximately HK\$4,240,000. The Group recognised a total expense of approximately HK\$923,000 (presented as RMB750,000) in relation to the share options granted by the Company during the Period.

The variables and assumptions used in computing the fair value of the share options are based on the management’s best estimate. The value of a share option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of a share option.

The major inputs into the models at the grant date were as follows:

Expected share price as at grant date	HK\$1.65
Exercise price	HK\$0.825
Expected volatility	59.07%
Expected life	2.6–3.6 years
Risk-free rate	1.797%
Dividend yield	0%
Early exercise level	3.5 times

The risk-free rate has made reference to the yield of HK Exchange Fund Notes (EFN) as at the grant date. The volatility of the Company’s stock was determined by reference to the share price volatilities of companies in similar line of business of the Company and assumed to be constant throughout the share option life.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

9. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to owners of the Company	25,687	10,515

	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	415,261,363	345,801,105
Effect of dilutive potential ordinary shares in respect of share options	1,814,704	1,512,806
Weighted average number of ordinary shares for the purpose of diluted earnings per share	417,076,067	347,313,911

10. Trade and Other Receivables

The Group does not allow credit period for sales from operation of restaurant, except for certain well established, corporate customers for which the credit periods are ranging from 30 to 80 days. The following is an analysis of trade receivables by ages, presented based on the invoice dates:

	As at	As at
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
0-30 days	6,064	6,049
31-60 days	1,543	1,075
61-90 days	1,186	438
Over 90 days	597	841
	9,390	8,403
Other receivables:		
Prepayments	12,007	7,914
Others	3,537	1,014
Total trade and other receivables	24,934	17,331

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

11. Trade and Other Payables

The following is an analysis of trade payables by age, presented based on the invoice dates:

	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
0–30 days	25,494	30,519
31–60 days	4,457	1,497
61–90 days	1,341	451
91–180 days	1,513	301
Over 180 days	1,337	928
	34,142	33,696
Other payables:		
Other payables and accruals	21,407	18,974
Salary and welfare payables	28,841	26,537
Receipts in advance	29,272	28,483
	113,662	107,690

12. Share Capital

	Number of shares	Share Capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
As at 31 December 2011, 1 January 2012 and 30 June 2012	2,000,000,000	200,000
Issued and fully paid:		
As at 31 December 2011 and 1 January 2012	415,000,000	41,500
Issue of shares pursuant to the exercise of Pre-IPO Share Option Scheme on:		
18 May 2012	924,000	93
26 May 2012	192,000	19
As at 30 June 2012	416,116,000	41,612
Equivalent to RMB (RMB'000)		RMB34,944

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

13. Related Parties Disclosures

The Group had the following transactions with related parties:

Name of related parties	Nature of transaction	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Chiu Kwun Engineering (Shenzhen) Co., Ltd. <i>(note i)</i>	Leasehold improvement	1,172	–
C&W (Nominees) Ltd. <i>(note ii)</i>	Professional fee	–	2
Dongguan Well Excellent Hotel Management Services Co., Ltd. <i>(note iii)</i>	Rental expenses	516	516
Meco Group Company Limited <i>(note iii)</i>	Rental expenses	1,807	2,316

Notes:

- (i) Mr. Ku Hok Chiu is beneficial owner.
- (ii) Mr. Chan Chi Kwong, a director of certain subsidiaries, is beneficial owner.
- (iii) Mr. Chan Man Wai, Mr. Ku Hok Chiu and Mr. Yip Shu Ming are directors and shareholders of the companies.

14. Comparative Amounts

During the Period, certain other income and expenses in the condensed consolidated statement of comprehensive income have been reclassified and certain interest income, finance costs and general administration expenses have been reclassified as unallocated income and expenses in the Group's segment information. In the opinion of the directors, such reclassification better reflects the underlying nature of those income and expenses. Accordingly, certain comparative amounts in the condensed consolidated statement of comprehensive income and segment information have been reclassified to conform with the current period's presentation.