STRATEGIC FINANCIAL RELATIONS LIMITED
縱橫財經公關顧問有限公司

Press Release

Tao Heung Announces 2015 Interim Results

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Network Expansion continued in Mainland China
To capture greater market share through efficiency enhancement and restaurant diversification

(Hong Kong, 20 August 2015) – **Tao Heung Holdings Limited** ("Tao Heung", or together with its subsidiaries the "Group"; stock code: 573), a leader in Chinese culinary trends, announces its interim results for the six months ended 30 June 2015.

For the six months ended 30 June 2015, the Group recorded total revenue of HK$2,251.8 million (2014: HK$2,218.5 million), representing a year-on-year increase of 1.5%. Mainland China operation has led to rise in revenue mainly attributed to the opening of new restaurants, accounted for 36.2% (2014: 33.0%) of the Group's total revenue. Profit attributable to owners of the parent amounted to HK$92.3 million (2014: HK$128.0 million) during the review period.

The Board proposed an interim dividend of HK6.0 cents per share for the six months ended 30 June 2015, which is equivalent to a dividend payout ratio of 66.4% (2014: 47.9%).

Mr. Eric Leung, CEO of Tao Heung, said, "Amid challenging market conditions, the management is well experienced in steering the Group forward based on careful implementation of relevant strategies. With Hong Kong remaining as our primary revenue source, our operational strategies in Mainland China have further bolstered the Group's presence in the country with expansion across key cities."

Mainland China Operations

During the reporting period, the Group operated a total of 42 (2014: 32) restaurants in Mainland China. As a result of the opening of new restaurants, the Group recorded revenue of HK$814.6 million (2014: HK$733.1 million) during the reporting period, thus accounted for 36.2% (2014: 33.0%) of the Group's total revenue while profit attributable to owners of the parent fell to HK$15.5 million (2014: HK$35.6 million).

The rise in revenue was mainly attributed to its well expanded network, specifically, two in Shanghai, two in Shenzhen and one in Guangzhou, as well as the encouraging performance of existing restaurants in Shanghai and Wuhan.

Even though revenue climbed, Mainland China operations' performance was moderated as two of the Group's flagship restaurants were relocated and required refurbishment work respectively, the related expenses of which placed significant pressure on profitability. Nonetheless, the opening of new restaurants and refurbishment works are all essential for enhancing the long-term competitiveness of the Group, particularly in the face of constantly changing market conditions.

In respect of the Bakerz 180 bakery chain business, the Group recorded an increase in revenue of 31.0% to HK$16.4 million. The rise in turnover was the result of network expansion from 10 outlets to 22 outlets since the second half of 2014 to the end of the reporting period, as well as a new consignment arrangement reached between the Group and PARKnSHOP which has enabled the Group to benefit from lower investment costs while leveraging the efficiency of the supermarket chain's extensive network. The management is to carry out prudent approach towards expanding the bakery chain and aims to operate approximately 24 outlets by the end of 2015.

Hong Kong Operations

Hong Kong operations reported revenue of HK$1,437.2 million (2014: HK$1,485.4 million) for the reporting period. The trend to subdivide properties by landlords in order to generate greater profits has continued, which attributed to the slight decline in revenue. As a result, the Group's total operating area as at reporting period end was reduced by 9.7% when compared to last year. Profit attributable to owners of the parent slipped to HK$76.8 million (2014: HK$92.4 million). Other factors such as new rules implemented by the Chinese government in mid-April that limited travellers from Shenzhen to one visit per week to Hong Kong has also reduced customer traffic.

However, the Group continues to employ effective promotions such as "HK$1 Chicken", "Hotpot Promotion" [(火鍋三招)] and morning *yum cha* discounts to increase per head consumption.
To diversify its reach to different segment and maintain market share, the Group will open more non-Chinese cuisine establishments that proves to attract young customers. Revenue of Tai Cheong Bakery increased by 10.2%, as at the reporting period, a total of 30 (2014: 27) outlets are under operation.

Logistics Centres & Peripheral Business

Tai Po and Dongguan Logistics Centres have remained key components of the Group's vertical integration infrastructure. Both centres are instrumental in processing food, maintaining food quality, controlling costs and allowing the management to investigate business opportunities. As at the review period end, the two logistics centres each processed 1,050 tonnes of food per month. Construction of Dongguan Phase 2 was completed in January 2015, and the new facility has commenced operation, principally for the processing of dim sum and Chinese baked goods.

The poultry and peripheral business represents a source of supplemental income for the Group, generating revenue of HK$54.8 million during the reporting period, compared with HK$46.8 million for the corresponding period last year. The poultry farm serves the important role of providing a safe and stable supply of poultry to the Group.

Prospects

Looking forward, the management believes the remaining financial period will be no less challenging for the Group as both Hong Kong and Mainland China will present their own unique set of obstacles.

In Hong Kong, the business environment is expected to remain lacklustre as the total number of Mainland visitor arrivals will be curbed due to new regulations. Furthermore, local consumption sentiment is expected to remain weak, thus inflicting a double blow on a wide swath of industries within the service sector, including catering. Despite the uninspiring outlook, the Group remains strong and competitive. The management's early implementation of restaurant downsizing will enable the Group to become less susceptible to the subdividing practices of landlords going forward. Also, with the decreased area of its restaurants, the Group will be less affected by the high cost of labour and labour shortages that remain concerns of the catering sector. It is worth noting as well that aside from the downsizing of restaurants, the opening of non-Chinese cuisine establishments such as "RingerHut" and "T CAFÉ 1954" has allowed the Group to attract a wider range of customers. In the upcoming financial period, the management aims to operate a network of 72 restaurants in Hong Kong, which includes three "RingerHut" restaurants and one "T CAFÉ 1954" eatery.

In Mainland China, market consolidation precipitated by restaurant operators migrating from the upscale to middleclass segment will be a primary concern for the management. Such concern is further aggravated by a slowdown in economic growth, with GDP already hovering at the 7% mark in the second quarter of 2015. However, the Group will continue to focus on fortifying its position in markets where favourable results have been achieved, such as Shanghai and Wuhan in respect of the eastern and central region of China respectively, and Guangzhou and Shenzhen, which represent the southern segment of the country. During the next half year, the Group plans to open a total of four restaurants, specifically, Foshan, in cooperation with Guangzhou Metro; Wuhan, the second restaurant in the city; Wuxi, a further step in fortifying its position in eastern China; and Jiangmen. Such locations are consistent with the management's focus on targeting cities where there are high concentrations of middleclass consumers.

Mr. Chung Wai Ping, Chairman of Tao Heung concluded, "Under adverse business conditions, we have already implemented different strategies in Hong Kong and Mainland China aimed at consolidating the Group's operations, raising operational efficiency, increasing diversification to capture greater market share and reinforcing our position as leader of Chinese culinary to maintain long term sustainable growth ."

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About Tao Heung

Established in 1991, Tao Heung has embraced the principle of "innovation" with the aim of becoming an esteemed and premier Chinese restaurants group. As of 30 June 2015, the Group operates a network of 164 restaurants and bakery shops in Hong Kong and Mainland China under 18 brands. These include Tao Heung, Tao Square, Pier 88, Hak Ka Hut, Cheers Restaurant, Chao Inn, Chung's Cuisine, Chung's Kitchen, TCT, One Roast, HITEA, HIPOT, Joyous One, Cheers Palace, RingerHut, Tai Cheong Bakery, T CAFÉ 1954 and Bakerz 180. Tao Heung was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2007.

Media Enquiries:

Strategic Financial Relations Limited

Cindy Lung	Tel: (852) 2864 4867	Email: cindy.lung@sprg.com.hk
Stephanie Liu	Tel: (852) 2864 4852	Email: stephanie.liu@sprg.com.hk