Press Release

Tao Heung Announces 2017 Interim Results

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Operating environment to remain challenging
Business strategies in place to achieve growth over the long term

(Hong Kong, 24 August 2017) – **Tao Heung Holdings Limited** ("Tao Heung," or together with its subsidiaries the "Group;" stock code: 573), a leader in Chinese culinary trends, has announced its interim results for the six months ended 30 June 2017 ("review period").

The operating environment remained difficult during the reporting period. Total revenue contracted by 10.0% to HK$1,973.0 million (2016: HK$2,193.4 million). Profit attributable to owners of the parent amounted to HK$40.8 million (2016: HK$92.3 million). The significant decline in profit was due to the aforementioned business environment, together with the net effect of increases in staff and rental costs of existing restaurants as well as closure of underperforming restaurants.

The Board has proposed an interim dividend of HK5.50 cents per share for the six months ended 30 June 2017, which represents a dividend payout ratio of 136.9%.

Mr Chung Wai Ping, Chairman of Tao Heung, said, "As with other market practitioners, shortage in labour supply in Hong Kong and Mainland China create high pressure for us to maintain service quality. To address this issue, we implemented a number of measures, including introducing new incentives schemes for staff in both Hong Kong and Mainland China; increasing staff headcount and basic salary in Mainland China; and by reducing working hours for staff in Mainland China. We believe and expect such acts will help generate positive returns in the long run."

Hong Kong Operations

The Hong Kong operations generated revenue totalling HK$1,260.5 million (2016: HK$1,427.9 million) during the reporting period, with profit attributable to owners of the parent amounting to HK$27.3 million (2016: HK$76.0 million).

Consumption sentiment has remained weak during the latest reporting period as the general public continued to be wary about economic conditions at home and abroad. Headwinds in the form of rising staff costs and increased rent upon renewal of leased properties further affected the Group. In the face of such challenges, the management introduced promotional campaigns aimed at diversifying the Group's customer base, such as 火鍋放題 at the late supper session to attract young customers. As at end of the period, the Group operated a network of 66 restaurants (2016: 70), including three RingerHut restaurants and one T Café 1954 that offer non-Chinese cuisine.

In respect of Tai Cheong Bakery, it has commenced its expansion across Southeast Asia since

2016. Given the favourable response of its overseas outlets in Singapore at the Takashimaya department store in Ngee Ann City and Holland Village, the management envisages further openings in Singapore and within the region as opportunities arise. As for the Tai Cheong Bakery operation in Hong Kong, the Group operated 19 outlets (2016: 25) in the city as at the reporting period. Even though revenue declined from HK$50.1 million in 2016 to HK$44.1 million as at the reporting period, the business nonetheless achieved a turnaround.

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Mainland China Operations

The Mainland China operations generated revenue totalling HK$712.5 million (2016: HK$765.5 million) during the reporting period, while profit attributable to owners of the parent slipped to HK$13.5 million (2016: HK$16.3 million)

Though the business environment has remained challenging, which led to lacklustre performance during the reporting period, the demand for banquet services is expected to gradually improve in the wake of the Central Government's two-child policy that has commenced since the start of 2016. In response, the Group has established a dedicated banquet department that provides one-stop services and which will seek to build a loyal customer base. Besides banquet services, the Group's integrated complex business model is continuing to be developed over the country. As of 30 June 2017, The Group operates three integrated complexes in China, which have contributed stable income to the Group.

Moreover, with improving efficiency in mind, the management has continued to enhance automation in various aspects of operation. Up to now, the Automated Stir Frying Machine has been introduced to most of the Group's restaurants in Mainland China. The management views such technologies as essential for tackling the problems of rising staff cost and labour shortage, which may worsen in the coming years. Technology is also playing an increasingly greater role in attracting consumers, particularly the younger generations. In response, the Group has further leveraged e-commerce, including the deployment of a WeChat platform which enables customers to order food and make payment in their own mobile devices. Furthermore, to tap the takeaway market, the Group has employed such popular platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了嗎) to cater for the segment. At present, the takeaway business accounts for approximately 3.0% of Mainland China operations' revenue.

As at 30 June 2017, the Group operated 45 restaurants (2016: 47 restaurants) in Mainland China; opening one new restaurant during the reporting period. The Group also operated a total of 26 (2016: 22 outlets) Bakerz 180 outlets as at period end. The lacklustre consumption sentiment was reflected by a decline in revenue from bakeries in Mainland China to HK$14.2 million (2016: HK$16.1 million).

Peripheral Business

The poultry and peripheral business continued to generate stable revenue, amounting to HK$121.1 million (2016: HK$123.0 million) during the reporting period. The supermarket business also performed encouragingly and contributed a fair portion of revenue to the Group. Moreover, the Group's involvement in producing OEM products for Hong Kong airline operators, hotels and supermarkets further added to the total turnover of the segment.

Prospects

Looking ahead, with the economic outlook for Mainland China and Hong Kong remaining less than favourable, the respective catering sectors will unlikely experience a turnaround in the immediate future. Nonetheless, the management, with their ample experience, remain confident in implementing strategies that will enable the Group to perform stably despite the persistent headwinds.

With raising efficiency remaining a key objective, the management will further consolidate operations of both the Mainland China and Hong Kong businesses. Reflecting this, a limited number of new restaurants will be opened in the remaining financial year, specifically one in Hong Kong and two in Mainland China. The management will seek collaborative opportunities as well, expanding the Hong Kong operations by way of joint ventures and bringing famous brands to the city to diversify revenue streams, such as Du Hsiao Yueh (「度小月」), which the first Hong Kong branch was newly opened in June 2017. Through Tai Cheong Bakery, the Group will also continue to expand its footprint overseas. In Singapore, the Group's tie with a local partner has been fruitful and has created the possibility of opening more outlets in the country. The management will also actively seek to partner with retail brands so as to welcome new customers and facilitate growth of the bakery business across the region – Malaysia being one of the potential markets that the Group will next enter.

In respect of the Mainland China operations, the management will direct energies towards developing a sophisticated one-stop banqueting experience, which is consistent with the more upscale customers targeted by the Group. At the same time, increasing automation and use of mobile technology will be pursued via such online platforms as WeChat, which facilitate convenient food ordering and payment, while increasing co-operation with Meituan (美團) will bolster the Group's takeaway business.

Mr. Eric Leung, CEO of Tao Heung concluded, "Though the operating environment will remain challenging, we are confident in our ability to achieve growth over the long term by capitalising on our experience and foresight, diverse product portfolio, strategic market presence and sound financial position. By leveraging the aforementioned competitive edges, we will continue to seize fresh business opportunities, expand revenue streams and create value for shareholders."

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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 2017, the Group operates a network of 159 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, One Roast, HITEA, Joyous One, Cheers Palace, Tao's Kitchen, RingerHut, Tai Cheong Bakery, T CAFÉ 1954, T Point and Bakerz 180. Tao Heung was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2007.

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