



Tao Heung Announces 2013 Annual Results

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Revenue up 6.5% to HK\$4,320.5 million
Dividend Payout Ratio Increases to 46.6%

(Hong Kong, 20 March 2014) – **Tao Heung Holdings Limited** (“Tao Heung,” or together with its subsidiaries the “Group;” stock code: 573), a leader in Chinese culinary trends, announced its annual results for the year ended 31 December 2013.

The Group’s total revenue increased by 6.5% to around HK\$4,320.5 million (2012: HK\$4,055.8 million), mainly due to the opening of nine new restaurants in 2013, four of which were in Hong Kong and five in Mainland China. The added thrust into Mainland China has better-positioned the Group to tap rising consumption growth among the middle class, and to seize opportunities presented by major cities including Shanghai. An EBITDA of HK\$609.5 million was reported for the year, which was similar to the corresponding period of last year. Profit attributable to owners of the parent reached HK\$274.2 million.

The Board has resolved to declare the payment of a final dividend of HK6.3 cents per share. Together with an interim dividend of HK6.2 cents per share already paid, the total dividend per share amounts to HK12.5 cents for the financial year, representing a payout ratio of 46.6% (2012: 44.3%).

Mr Chung Wai Ping, Chairman of Tao Heung, said, “Despite the challenging operating conditions caused by waning consumption sentiment and escalating staff and rental costs, we steadfastly pursued our tried and tested business strategies in Hong Kong and Mainland China combining prudent network expansion with effective promotion. Tao Heung was also able to maintain its profitability, owing to increased operational efficiency as well as the benefits of automation at the logistics centres in Hong Kong and Mainland China both achievements helping to preserve profitability.”

Hong Kong Operations

The Hong Kong operations reported revenue of HK\$3,006.3 million in 2013, a year-on-year increase of 0.6%, accounting for 69.6% of the Group’s total turnover, highlighting the impact of high inflation in Hong Kong and relatively weak consumption sentiment. Tao Heung operated a total of 79 outlets in Hong Kong as at 31 December 2013, four more than in 2012. EBITDA declined by 12.9% to HK\$368.7 million. Profit attributable to owners of the parent fell by 10.7% to HK\$208.7 million, owing in part to an increase in rental and labour costs.

To attract restaurant goers, the Group continued to employ its well-tested marketing campaigns and product promotions, including the “HK\$1 Chicken” and “Double Happiness” (筷樂孖寶) special offers. Furthermore, the Group launched an innovative “Spicy Chicken Hotpot” (麻辣雞煲) promotion aimed at the mass market, which attracted a larger number of young customers.

Another initiative targeting young customers was Tao Heung’s debut into the Japanese cuisine market with the opening in October of RingerHut, the first Nagasaki-style Champon noodle shop, in Hong Kong. Adding to its growing number of specialty restaurants is T CAFÉ 1954, a trendy '50s inspired café that also draws on the popularity of Tai Cheong Bakery adopting the bakery’s image and menu. This café was one of Tai Cheong Bakery’s four new shop openings in 2013, raising the total number to 25 as at 31 December 2013. This bakery network expansion contributed to respectable year-on-year revenue growth of 22.3% for Tai Cheong Bakery.

Besides, Tao Heung has also redeveloped the Tao Square (稻坊) brand to target middle class restaurant goers as a way of segment diversification. A new Tao Square restaurant in Tsim Sha Tsui opened in late 2013 has been warmly received by the general public. The Group plans to renovate its Tao Square restaurant in Mei Foo by the end of this March.

Mainland China Operations

Due to shrewd network expansion initiatives over the past several years, Tao Heung has achieved rapid growth in Mainland China. During the period under review, revenue rose by 23.2% to HK\$1,314.2 million. EBITDA rose at a similar rate, climbing by 26.2% to HK\$240.8 million, which included a HK\$7.0 million write-off on assets resulting from the closure of the wholesale segment of the poultry farm, which is part of the Group’s peripheral business.

Particularly noteworthy has been the establishment and success of its Shanghai restaurant. Opened in August 2013, it achieved operational profit within the first six months of business.

The five new restaurants opened during the review year and the eight new restaurants in 2012 have however led to depreciation expenses rising an unusually high 50.4% year-on-year, to HK\$134.2 million. However management believes that the performance of the Mainland China operation should continue to improve and anticipates a rebound in the second half of 2014.

With regards to the Bakerz 180 bakery chain in which the Group has held a 60% interest since May 2013, two stores were opened after the takeover, bringing the total to eight. A Guangzhou outlet is also set to open in March 2014, the first Bakerz 180 to be situated outside of Shenzhen. By the end of 2014, the total number of Bakerz 180 outlets is expected to reach 13.

Logistics Centres & Peripheral Business

Both logistics centres in Tai Po and Dongguan play crucial roles in maintaining high food quality and food hygiene, as well as the cost effective implementation of the Group’s various value-for-money promotions. By further enhancing efficiency through automation during the year, the Tai Po and Dongguan logistics centres each was able to achieve output of 1,050 tonnes of food per month respectively.

The peripheral business continued to provide a steady source of revenue to the Group, amounting to HK\$143.6 million, a similar level to that in 2012. The poultry farm also realised revenue growth, rising by 15.6% year-on-year to HK\$92.4 million.

Prospects

The challenging business environment of 2013 is expected to extend into 2014, and players in the catering industry will be anticipating continued erratic consumption sentiment. To cope with these conditions, Tao Heung will continue to introduce appealing promotions complementing its renowned high value-for-money offerings. To develop still more varied revenue streams and capture even wider market segments, the management will maintain its diversification strategy.

The Mainland China market will remain a key growth driver that Tao Heung will tap through network expansion. In the coming year, the Group will open between six and seven restaurants in the country, with up to two in Shanghai – building on Tao Heung's successful debut in 2013 – one in Shenzhen, one in Zhengzhou and one in Guangzhou. The Group will place a particular focus on Guangdong province and eastern China, because of the high concentration of middle class consumers. Additional focus will be placed on selected provincial cities to further penetrate the market.

In Hong Kong, we will further consolidate our presence by opening around three to four restaurants in 2014. Adhering to a highly prudent expansion strategy, each opening will focus squarely on enhancing investment return and profitability, with the ultimate objective of achieving sustainable and stable growth. In respect of the Tai Cheong Bakery, four to five shop openings are planned which will include T CAFÉ 1954. Besides, one or two RingerHut outlets will be opened in the coming year, following its successful debut in October 2013.

The ongoing development of the Group requires greater logistical support. Construction of the new facility at the Dongguan Logistics Centre expected to be completed in 2014 is to feature the latest production line equipment, including associated systems designed and set up by overseas experts. Upon opening in 2015, the highly automated Phase 2 facility would further increase the proportion of finished food delivered to restaurants, reducing reliance on manpower and alleviating labour shortages in both Hong Kong and Mainland China.

Mr Eric Leung, CEO of Tao Heung concluded, "Our roadmaps for growth in Mainland China and Hong Kong remain sound despite the peculiarities and challenges posed by the expected unstable business climate in both areas. We believe that Tao Heung can sustain growth given our strengths in business development, marketing and promotion, and financial management. Having achieved clear progress in Mainland China and sustained growth in Hong Kong, we remain confident in the Group's ability to reach its goal of operating a catering network of 200 outlets by 2017."

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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. Currently, the Group operates a network of 141 restaurants and bakery shops in Hong Kong and Mainland China under 19 brands. These include Tao Heung, Tao Square, Pier 88, Hak Ka Hut, Cheers Restaurant, Chao Inn, Chung’s Cuisine, Chung’s Kitchen, Shanghai Inn, 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.

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