



Tao Heung Announces 2014 Interim Results

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Substantial Growth in Mainland China Drives Revenue Increase Interim Dividend Payout Ratio Increased to 47.9%

(Hong Kong, 21 August 2014) - **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 2014.

For the six months ended 30 June 2014, the Group reported a modest rise in revenue, up 4.4% to HK\$2,218.5 million (2013: HK\$2,126.0 million), which was mainly supported by growth from the Mainland China operations. EBITDA amounted to HK\$299.0 million during the reporting period, remaining at a similar level with the corresponding period of last year (2013: HK\$304.7 million). Profit attributable to owners of the parent contracted by 7.9% to HK\$128.0 million (2013: HK\$139.0 million).

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

Mr. Eric Leung, CEO of Tao Heung, said, “In the first half of 2014, the Group continued to face challenging business conditions in Hong Kong, which included the sharp rise in rent, decline in Mainland Chinese visitors and lacklustre economic growth leading to weak consumption sentiment. Conditions in Mainland China have however improved, driven by healthier demand from middle-class consumers, particularly families, as well as a pick-up in the wedding and banquet business. Thanks to the expanded network of restaurants and the introduction of several promotions that were effective at stimulating customer spending, we managed to deliver overall revenue growth for the Group in the review period.”

Mainland China Operations

As at the reporting period, the Mainland China operations realised double-digit revenue growth, climbing by 17.0% to HK\$733.1 million as compared to the last corresponding period. The increase in revenue was mainly driven by increased consumption among families, weddings and banquets, greater number of restaurants and the public’s growing acceptance of austerity measures implemented by the Central Government. Consequently, this segment delivered greater contributions to the Group; accounting for 33.0% of Tao Heung’s total revenue in the first half of 2014, compared to 29.5% in 2013.

In respect of network expansion, the Group opened one restaurant in Guangzhou and Zhengzhou respectively. This raises the total number of restaurants to 32 as at the reporting period, up from 27 restaurants during the same time last year. Overall, low single-digit growth was achieved for both

same-store sales and average spending per head compared to respective declines in the corresponding period of last year.

Bakerz 180 remained in a development stage in the review period, which is expected to reach operational breakeven point in 2015. As at the reporting period, the Group operated 10 shops out of southern China. This network will be further expanded in the remaining year with the opening of one shop in Guangzhou and seven shops in Shenzhen.

Excluding the Group's poultry business, which faced severe challenges during the reporting period due to the termination of the wholesale business and declining prices for poultry and pork, profit attributable to owners of the parent would have amounted to HK\$35.3 million, representing an 19.2% increase as compared to the last reporting period for the Group's restaurant, bakery and logistics business. Inclusive of the poultry business, the Group's profit attributable to owners of the parent slipped slightly to HK\$35.6 million.

Hong Kong Operations

Revenue recorded from the Hong Kong operations totalled HK\$1,485.4 million, representing a marginal decline of 0.9% (2013: HK\$1,499.4 million). Weak consumption sentiment and the decrease in number of tourists from Mainland China were attributable to the revenue decline. According to the Association of Restaurant Managers, the performance of the catering sector in March and April was at its worst level in the past five and ten years respectively.

To boost customer traffic, along with Tao Heung's signature "HK\$1 Chicken" and "Double Happiness" (筷樂孖寶) offers, the Group also introduced the "Hotpot Promotion" (火鍋三招) which complemented seasonal demand. These promotions were again effective at helping stimulate consumption and limiting the general decline in patrons. Same stores sales contracted by a low single-digit, yet the contraction was improved over last year. Profit attributable to owners of the parent dropped by 9.8% to HK\$92.4 million (2013: HK\$102.4 million).

In view of the growing practice among landlords of subdividing their properties into smaller spaces, Tao Heung's management has been adjusting the Group's shop opening strategy accordingly. Smaller restaurants and non-Chinese cuisine restaurants such as "RingerHut" and "T CAFÉ 1954" have been established. Moreover, the Group has continued to consolidate its business, closing underperforming locations and only opening new establishments where they represent good business prospects. As a result, the Group operated a total of 76 restaurants in Hong Kong as at 30 June 2014; down from 79 restaurants at the end of 2013. As for Tai Cheong Bakery operation, the Group operated a total of 27 outlets as at the reporting period, up from 23 outlets for the same period last year.

Logistics Centres and Peripheral Business

The Tai Po and Dongguan Logistics Centres currently achieve a monthly output of 1,050 tonnes per month respectively, and once Dongguan Phase 2 is launched in 2015, still greater output and efficiency will be realised. Besides, the Group's peripheral business continued to provide an additional source of revenue to the Group, reaching HK\$121.9 million (2013: HK\$121.0 million). The declining prices for

poultry and pork led to a smaller profit for this segment. The poultry farm nonetheless remains an important asset of the Group, providing a stable and safe source of quality pork and poultry for its restaurant operations.

Prospects

With regards to the Mainland China market, the local catering industry experienced a period of robust growth during the first half of the year and the expansion gained pace especially in the second quarter. The management will therefore continue building on the success of its existing network. In particular, the Group will focus on first-tier cities as this corresponds with its strategy of catering for middle-class consumers. Over the next six months, Tao Heung will open approximately five to six new restaurants in the Mainland China, specifically in the cities of Guangzhou, Shenzhen and Shanghai.

In the Hong Kong market, management will employ proven strategies that are sensitive to current market conditions to raise the Group's competitiveness, as the Hong Kong market is expected to further weaken when consumption sentiment stagnates and the number of Mainland tourists continue to decline. This will include the ongoing introduction of popular Tao Heung's promotions for which it is renowned, i.e. "HK\$1 Chicken" and "Double Happiness" (筷樂孖寶) value-for-money offers. The Group will also strengthen its network with the opening of two new restaurants in the coming half year, while weaker performing restaurants will concurrently be removed. The newly established "RingerHut" business will be enlarged as well with the addition of two new restaurants, thus further strengthening the Group's presence in the Japanese cuisine segment. The Tai Cheong Bakery network will likewise see the addition of one to two more outlets before the close of 2014. Besides, there are several developments that hint at more positive prospects on the horizon. Rental rates are anticipated to gradually dip by some industry estimates and inflation rate experiencing a steady decline would therefore help alleviate cost pressures that the catering industry is acutely aware of.

Mr. Chung Wai Ping, Chairman of Tao Heung concluded, "Regardless of how the two markets will play out in the coming months, the management remains confident in the Group's ability to overcome challenges and realise long-term growth. With clear development strategies in place, sound financial management and prudent leadership, Tao Heung is well on its way to realise 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. As at 30 June 2014, the Group operates a network of 145 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.

Media Enquiries:

Strategic Financial Relations Limited

Ming Chan Tel: (852) 2864 4892 Email: ming.chan@sprg.com.hk
Fax: (852) 2527 1196