Press Release

Tao Heung Announces 2015 Annual Results

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Streamlined Operations and Effective Cost Control Boost Efficiency of Hong Kong Operation

(Hong Kong, 29 March 2016) – **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 2015.

Over the past year, operation environment in both Hong Kong and Mainland China remained challenging. During the review year, the Group's total revenue increased to HK$4,546.5 million (2014: HK$4,489.2 million). Hong Kong operation remained the principal revenue contributor of the Group, accounting for 64.4% (2014: 66.1%) of total revenue, with the Mainland China operation accounting for 35.6% (2014: 33.9%) of total revenue. Gross profit margin is maintained at a similar level with last year, mainly attributed to management's efficient cost control and effective food chain management. Profit attributable to owners of the parent fell to HK$171.3 million (2014: HK$207.4 million), due largely to poor sentiments of the PRC consumption market and policies that impacted on business and banquet spending.

The Board has resolved to declare a final dividend of HK6.0 cents per share, combined with an interim dividend of HK6.0 cents already paid, total dividend per share will amount to HK12.0 cents for the financial year, representing an annual payout ratio of 71.6% (2014: 59.1%).

Mr Chung Wai Ping, Chairman of Tao Heung, said, "Despite encountering challenges in both Hong Kong and Mainland China, we have carefully formulated and deployed strategies to further advance our position in both markets. As we celebrate our milestone 25th anniversary, we are also inspired to continue to seize opportunities for developing the Group's business and sustaining its growth to satisfy the palates of the population over the next 25 years and beyond."

<u>Hong Kong Operations</u>

Thanks to the Group's continuous efforts in streamlining operations and controlling costs over the years, revenue was able to maintain at a similar level compared with 2014, Hong Kong operations recorded a modest decline of 1.4 % year-on-year, amounted to revenue of HK$2,925.7 million (2014: HK$2,968.3 million) for the review year, while profit attributable to owners of the parent increased by 16.9% to HK$167.5 million (2014: HK$143.3 million). Amid on-going operation challenges including decline in Mainland visitor arrivals, low spending sentiment, significant downsizing of the Group's total operating area from approximately 716,000 sq. ft. in 2013 to approximately 663,000 sq. ft. by the close of 2015, representing a reduction of 7.4% and 3.2% when compared with 2013 and 2014, respectively. The Group's bottom line was able to achieve improvement due largely to management's efforts on efficient cost control and strategic positioning on mass market segment.

The Group believes the downsizing exercise followed the trend of landlords subdividing properties to boost profits in the past few years has recently been completed. The process has enabled the Group to create a much leaner and more efficient restaurant network, releasing pressure from the labour shortage.

As at 31 December 2015, the Group operated a total of 71 outlets (2014: 72 outlets), which include four Tao Square restaurants that target the middleclass segment, three "RingerHut" restaurants serving Japanese ramen, and one "T CAFÉ 1954" café offering casual dining options. With regards to Tai Cheong Bakery, a total of 28 outlets are in operation as at year-end (2014: 27); revenue increased modestly by 5.9% to HK$112.0 million.

Mainland China Operations

Mainland China operations recorded revenue increase of 6.6% to HK$1,620.8 million (2014: HK$1,520.9 million) during the year. Yet excluding the one-off written off and impairment of items of property, plant and equipment of HK$13.5 million, EBITDA slipped to HK$218.3 million (2014: HK$252.7 million); while profit attributable to owners of the parents was HK$12.2 million (2014: HK$64.1 million).

While the significant economic slowdown directly impacted the performance of the Group, other factors include rising competition from new restaurant openings due to increased availability of retail space as a result of the surging popularity of online shopping together with the increasing number of shopping centres being opened in major metropolitan hubs weighed on the Group's business in Mainland China. Moreover, a greater number of restaurant operators have migrated from the upscale premium to the middleclass and mass market segments since austerity measures were implemented by the PRC government. In addition, recent policies aimed at fighting corruption nationwide have also caused a reduction in the scale and number of dinner banquet bookings among the Groups outlets. Despite the aforementioned challenges, revenue from the Mainland China operation remained stable, which attributed to the careful expansion of the Group's restaurant network with 45 restaurants as of 31 December 2015 (2014: 37 restaurants).

During the year, new restaurants were opened in Wuhan, Shenzhen, Guangzhou and Shanghai with positive market response. In an effort to move away from the traditional large-scale banquet-style outlets, new establishments are with smaller scale and followed a casual-dining style, targeting middleclass and younger demographic groups. Together with menus updated to suit broader needs, responses from customers so far have been encouraging.

In respect of the Bakerz 180 bakery chain, the Group's target of operating 22 outlets by the end of 2015 was achieved, up from 18 as at the close of 2014. Although it remained in a developmental stage, Bakerz 180 has continued to generate increasingly higher revenue, reaching HK$35.9 million (2014: HK$27.3 million) for the year, an increase of 31.5%, but still making a loss during the review period.

Logistics Centres & Peripheral Business

Both the Tai Po and Dongguan Logistics Centres represent key components of the Group's vertical integration backbone. Each facility has reached a monthly food processing capacity of 1,050 tonnes, thus effectively supporting all of the Group's restaurants and bakery arms in Hong Kong and Mainland China. Providing added support is Dongguan Phase 2 which was completed in January 2015, and is now fully operational. It is primarily involved in the processing of dim sum and Chinese baked goods.

Representing a pilot project aimed at capitalising on the production capacity available at its Dongguan facilities, the Group established a self-owned retail point adjacent to the logistics centre for selling pre-packed chilled and frozen products, breads and other baked goods directly to end-user customers in the area. The response from customers has been satisfactory.

The poultry and peripheral business continued to provide supplementary income during the year, amounting to HK$114.8 million (2014: HK$90.7 million) and HK$143.3 million (2014: HK$153.9 million) respectively during the review period. The poultry farm remains an important asset that ensures the Group is provided with a steady and safe supply of quality poultry.

Prospects

Looking forward, though the economic environment in Hong Kong and Mainland China remains challenging, the management is cautiously optimistic about the Group's future, having taken decisive actions early on to create a lean and strong foundation that can weather through ups and downs of the economy. While looking to reap the benefits of its early efforts, the management will at the same time continue to closely monitor developing trends and initiate strategies that ensure the Group is adaptive to change, particularly as it marks its 25th anniversary in 2016.

In respect of the Hong Kong operations, with the 25th anniversary of the Group on the horizon, the management will use the occasion to further bolster the brand equity of Tao Heung, and thereby sustain growth momentum. In the pipeline are associated marketing initiatives that supplement other popular campaigns, such as the venerable "HK$1 Chicken" promotion. Still another initiative will include offering exceptional discounts on signature Tao Heung dishes during our 25th anniversary. Aside from such efforts, the management will continue to cautiously expand its presence in the city with the opening of between one and two Chinese restaurants, as well as up to two RingerHut restaurants to appeal to those wanting convenient Japanese cuisine. The Tai Cheong bakery operation will likewise have a modest increase in shops; possibly reaching up from 28 to 30 outlets by the close of 2016. Besides expanding the bakery's presence locally, the management has established a joint venture to operate Tai Cheong outlets in Singapore and Malaysia, with plans to have the first outlet in Singapore opened in the first half of 2016.

While Mainland China is experience economic downturn coupled with intense competition and lacklustre consumption sentiment, the Group remains confident about the prospects in the country. By placing greater emphasis on casual dining that targets the non-business middleclass market segment, such as families and younger generations with increasing spending power. Correspondingly, new menus will be introduced that offer modern Chinese cuisine which provides greater flexibility for selection. With the transformation on track, the management will not only vary its operation strategy, but also focus on rationalising the workflow of restaurants in order to reduce associated operating costs. Besides optimising the existing network, a modest increase of between four and five restaurants is envisaged, including one new restaurant in Shanghai and Wuxi respectively.

Aside from developing its core business, the Group recognized that direct retail food distribution represents a logical means of optimising utilisation of its logistics centres, the management will closely monitor developments at the new retail point in Dongguan and consider the feasibility of opening additional points in the future. Regarding the Bakerz 180 bakery chain, the management will continue to invest and develop the business in view of the large demand that exists among the population at large.

Mr Eric Leung, CEO of Tao Heung concluded, “Celebrating the Group’s 25th anniversary, we have well defined our strategies for both Hong Kong and Mainland China to capture further business growth and grasp emerging opportunities by leveraging our competitive edge and overcoming challenges. We remain confident in our ability to access new revenue streams and deliver greater returns to our 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 31 December 2015, the Group operates a network of 166 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, TCT, One Roast, HITEA, Joyous One, Cheers Palace, RingerHut, Tai Cheong Bakery, T CAFÉ 1954, Bakerz 180, T Point and Tao’s Kitchen. Tao Heung was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2007.

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