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

Press Release

Tao Heung Announces 2016 Interim Results

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Diversified Business Strategies and Effective Cost Control Boost Revenue amidst a Challenging Operational Environment

(Hong Kong, 18 August 2016) – **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 2016 ("review period").

Amidst a challenging operating environment in both Hong Kong and China, the Group recorded a modest decline of 2.6% in total revenue amounting to HK$2,193.4 million (2015: HK$2,251.8 million) for the six months ended 30 June 2016. Hong Kong remained as the principal revenue source of the Group, accounting for 65.1% (2015: 63.8%) of the total revenue. Thanks to management's streamlining of operations, profit attributable to owners of the parent was maintained at HK$92.3 million (2015: HK$92.3 million) during the review period.

The Board proposed an interim dividend of HK6.0 cents per share for the six months ended 30 June 2016, representing a dividend payout ratio of 66.1 %, same as the last reporting period.

Mr Chung Wai Ping, Chairman of Tao Heung, said, "We see that consumption sentiment in Hong Kong and Mainland China has remained lacklustre, a clear reflection of the economic climate on both sides of the border. Consequently, we have taken measures to minimise the downward pressure; we are glad to report that the Group has maintained a relatively stable business performance during the period."

Hong Kong Operations

Revenue from the Hong Kong operations recorded a slight dip of 0.6% to HK$1,427.9 million (2015: HK$1,437.2 million) during the review period. Though the total operating area was reduced to 650,000 sq.ft. (2015: 657,000 sq.ft.) and labour shortage continues to keep operating cost up, profit attributable to owners of the parent remained at a similar level to the same period last year, amounting to HK$76.0 million (2015: HK$76.8 million).

Aside from streamlining operations, the Group marked its 25th anniversary by launching a marketing campaign with a television commercial as well as a series of promotional dishes and campaigns which effectively maintained sales. As at period end, the Group operated a restaurant network of 70 outlets, including three RingerHut restaurants and one T Café 1954 that offer non-Chinese cuisine.

Revenue of Tai Cheong Bakery declined to HK$50.1 million (2015: HK$56.8 million) with a total of 25 outlets as at 30 June 2016. During the review period, Tai Cheong Bakery has begun expansion across Southeast Asia with its first outlet opened on 1 July 2016 in Singapore. Favourable results were achieved during its first month of operation there and the Group believes it will continue to deliver promising returns as well as building a strong foundation for future expansion.

Mainland China Operations

As at 30 June 2016, the Group operated a total of 47 (2015: 42) restaurants in Mainland China, including three new restaurants located in Shanghai, Wuxi and Wuhan respectively. During the review period, revenue from Mainland China operations declined by 6.0% due mainly to the economic slowdown, amounting to HK$ 765.5 million (2015: HK$814.6 million). However, profit attributable to owners of the parent increased slightly to HK$16.3 million (2015: HK$15.5 million) owing to promptly adjusting its business strategy in response to the changing conditions in Mainland China.

Besides adjusted business strategy by opening smaller scale restaurants instead since last year, the Group has introduced a new business model this period, the centrepiece of which is an integrated complex located at Dongguan covering more than 22,000 sq.ft. that features a Chinese restaurant, a supermarket, an indoor playground, a museum and parking facilities. Targeted primarily towards middle- and high-income families, the first integrated complex has opened in January, followed by a second complex in May of this year. Given the positive response, the Group plans to open a third complex, also in Southern China, before the close of 2016. Both the second and third complexes have been converted from existing large-scale restaurants of the Group and are expected to generate diversified revenue streams while increasing operational efficiency.

Moreover, the Group has dedicated resources towards developing automated equipment to tackle the labour shortage and cost, aimed at solving this problem in the long run. A “Robot Waiter” and two automated machines, namely, the “Automated Stir Frying Machine” and “Seafood Conveyer Belt” are currently being used in some of the Group’s restaurants in Mainland China. The results so far have been satisfactory. Furthermore, recognising the burgeoning acceptance of e-commerce, a mobile app will be launched in the second half providing customers’ convenient all-in-one features at their fingertips, including ticketing, ordering and payment.

Peripheral Business

The poultry and peripheral business continues to bring added revenue to the Group, contributing HK$123.0 million (2015: HK$120.3 million) during the review period. This includes revenue from the Group’s direct sourcing farms as well as sales of pre-packed chilled and frozen products sold not only through the Group’s first supermarket in the Dongguan integrated complex, but also to other customers directly from the logistics centre. The satisfactory performance of the segment has been attributable to both favourable pork prices and the better-than-expected performance of the Group’s supermarket sales. With the opening of the second and third integrated complexes, with their own supermarkets, the Group has high expectations for the pre-packed food business.

Prospects

Looking ahead, a change in consumption sentiment in Hong Kong and Mainland China is unlikely in the remaining half year due to the persistent weak local, national and global economies. The management is undaunted, however, as it is implementing strategies specific to the two markets for contending with the difficult conditions.

In Hong Kong, capitalising on the 25th anniversary of the Group, the management will both launch themed menus and revamp its current menu to appeal to existing and new customers from diverse socio-economic demographics, and thus further strengthen brand awareness. To further bolster the prominence of Tao Heung and capitalise on the pre-packed food segment, the Group will launch a range of new pre-packed products at its Hong Kong restaurant network in order to appeal to an even wider audience of customers. Regarding Tai Cheong Bakery, the management remains positive about its ability to develop and diversify. In particular, the cross-border partnership in Singapore has provided optimism for pursuing additional outlets overseas, and there are plans for opening up to five stores. The management is also pursuing other overseas opportunities to extend the operation even further. Aside from geographical expansion, the Group is actively examining collaboration with retail brands as well, which could attract additional customer segments.

In Mainland China, the Group is maintaining its strategy of focusing on the middle class consumer segment rather than the business segment, as demonstrated by the introduction of the integrated complex in Dongguan. A total of three such complexes are expected to be in operation by the end of the financial year, whereby it would further appeal to families and the young, generate additional revenue, and mitigate the impact of the challenging environment. The Group remains cautiously optimistic about its network expansion strategy, opening additional two-to-three restaurants in the upcoming period, targeting cities that with high concentrations of middle class consumers, a further step in fortifying the Group's position in Mainland China.

Mr. Eric Leung, CEO of Tao Heung concluded, "To cope with the adverse operating environment, we have already implemented different strategies aimed at strengthening the Group's operations, increasing diversification to bring in extra revenue and capturing greater market share. At the same time, we have maintained effective control on our costs in order to fortify our position as a leader in the Chinese culinary industry. Going forward, we will continue to dedicate efforts for realising sustainable growth both locally and across the border, while at the same time bolstering our presence and brand overseas."

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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 2016, 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, 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.

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
Jeffrey Tam	Tel: (852) 2864 4858	Email: jeffrey.tam@sprg.com.hk