



## Tao Heung Announces 2010 Annual Results

\* \* \* \* \*

***Strong Business Growth in China Boosts up Revenue by 12.5%***  
***Higher Efficiency and Profitability Expected from New Tai Po Logistics Centre***

### Results Highlights

<i>For the year ended 31 December</i>			
	<b>2010</b>	2009	Changes (%)
Revenue (HK\$mil)	<b>2,937.2</b>	2,610.4	+12.5%
EBITDA (HK\$mil)	<b>453.8</b>	420.2	+8.0%
Profit attributable to owners of the parent (HK\$mil)	<b>219.4</b>	208.5	+5.2%
Basic EPS (HK cents)	<b>21.59</b>	20.54	+5.1%
Proposed final dividend per share (HK cents)	<b>6.3</b>	6.3	-
Total dividends per share (HK cents)	<b>12.5</b>	12.5	-

(Hong Kong, 24 March 2011) - **Tao Heung Holdings Limited** ("Tao Heung", or together with its subsidiaries the "Group"; stock code: 573), a leader in Chinese culinary trend, announces its annual results for the year ended 31 December 2010.

Owing to improving consumption sentiment and strong business growth in Mainland China, Tao Heung was able to continue achieving steady progress and realised better performance towards the second half year. During the year, the Group's total revenue increased by 12.5% year on year to approximately HK\$2,937.2 million. EBITDA increased by 8.0% to HK\$453.8 million. Profit attributable to owners of the parent rose by 5.2% to HK\$219.4 million, thanks to greater efficiency achieved at the logistics centres and adoption of stringent cost control measures, including the signing of long-term bulk-purchase contracts for food ingredients at discounted prices.

The Board has recommended the payment of a final dividend of HK6.3 cents per share. With the inclusion of an interim dividend of HK6.2 cents per share already paid, total dividend per share will amount to HK12.5 cents for the financial year, representing a payout ratio of 57.9%.

**Mr. Eric Leung, CEO of Tao Heung**, said, "Driven by improving consumption sentiment in Mainland China and new shop openings, Tao Heung realised stable progress in 2010, highlighted by a solid second half year when business performance picked up. Despite a difficult operating environment resulting from rising food and utility costs caused by inflation, we relied on our logistics centres to deliver greater cost savings. Further aiding our cause was the ability to maintain labour cost and rent at manageable levels, a modest increase in profitability was therefore achieved."

### **Hong Kong Operations**

Thanks to the five new shops opening and the adjustment of marketing strategies in the second half year, the Group's revenue in the Hong Kong market recorded a year-on-year increase of 10.8% to HK\$2,393.5 million. EBITDA achieved a moderate growth by 3.2% as compared to last year, mainly due to the Group's strategic advertising investment in self-branded mooncakes. Profit attributable to owners of the parent contracted by 3.0% to HK\$175.9 million.

Towards the second half year, the Group began adjusting its marketing strategies, stimulating consumption by launching product promotions and themed cuisine menus, which proved more successful than deep discounts in boosting customer traffic. Consequently, higher revenue was generated in the second half year when compared to the preceding six months.

With respect to the Tai Cheong Bakery business, the Group realised significant revenue growth from the operation, which was up 65.6% year-on-year to HK\$56.3 million, mainly attributable to seven new shop openings during the year.

### **Mainland China Operations**

Driven by rising consumer confidence, the Group's revenue rose by 20.6% to HK\$543.8 million. The Group's strategy to tap the fast growing wedding and banquet markets also played contributing roles in revenue growth. It opened two new shops during the year, specifically, "Tao Heung" in Guangzhou, and "Cheers Palace" in Shenzhen.

A modest improvement in gross profit margin was recorded despite the rapid rise in food ingredient costs. Same store sales growth of 5.9% was recorded with EBITDA increasing significantly by 24.3% to HK\$119.0 million. Profit attributable to owners of the parent increased by 59.5% to HK\$43.4 million. Improved profitability was the result of increased revenue, enhanced efficiency and greater food supply from the Dongguan Logistics Centre.

### **Logistics Centres**

The Fotan and Dongguan logistics centres continued to increase their food supplies to the Group's restaurants and achieved greater efficiency, resulting in more cost savings and control over food quality. Having been operational since mid-2007, the Dongguan Logistics Centre was profitable in 2010. Currently, the Dongguan facility has an output of around 800 tonnes per month and the targeted output level is estimated to reach 1,000 tonnes per month by the end of 2011.

Both the Fotan and Dongguan logistics centres have proven to be invaluable in driving down costs which was evidenced by the track record of gross margin improvements during the past few years. To address growing inflation-related concerns, the Group's new Tai Po Logistics Centre which possesses roughly five times the production capacity of its Fotan counterpart has become operational as of January 2011. Already, the Tai Po site has reached an average output of approximately 700 tonnes per month and is targeted to reach 910 tonnes per month by the end of 2011.

## **Prospects**

The management remains cautiously optimistic about the catering industry in 2011. This sentiment is based on the knowledge that rising labour costs in Hong Kong – induced by the implementation of minimum wage, and cost pressure from inflation, which will affect both Hong Kong and Mainland China, will result in stiff challenges.

As logistics will continue to play a central role in the Group's profitability, bolstering efficiency will be an ongoing endeavour. A higher degree of direct sourcing from farms in Mainland China will also be essential – and will be practised – to realise further cost savings. A further means of controlling cost is the poultry businesses that Tao Heung acquired in late December 2010. The acquisition will enable the Group to benefit from greater vertical integration of the food supply chain and have firsthand control over food quality. Moreover, since past records have indicated the poultry businesses to be profitable, the acquisitions are expected to deliver immediate profit contributions to the Group.

Shop opening remains the Group's major growth driver, where as Mainland China will be the key focus. The Group plans to open four to five restaurants in 2011, with two premises confirmed in Huizhou and Shenzhen respectively, with an aim of enhancing its network of restaurants in different cities within the Pearl River Delta. Tao Heung will also continue to tap the wedding and banquet market, which will further grow in line with increasing affluence. In Hong Kong, the Group scheduled to open five to six new shops in 2011, and thus far five premises have been confirmed.

**Mr. Chung Wai Ping, Chairman of Tao Heung**, concluded "In the face of stern challenges ahead, the management believes that opportunities do exist and the Group can overcome obstacles by utilising its competitive advantages. Being a leader of the Chinese restaurant scene in Hong Kong, Tao Heung has amassed significant experience in weathering difficult market conditions and is committed to managing expenses and delivering high-quality catering services."

- End -

## **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 79 Chinese restaurants in Hong Kong and southern China under 14 brands. These include Tao Heung, Tao Square, Pier 88, Hak Ka Hut, Cheers Restaurant, Chao Inn, Chung's Cuisine, Shanghai Inn, TCT, One Roast, HITEA, HIPOT, Joyous One and Cheers Palace. 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

Cassie Ng           Tel: (852) 2864 4864

Email: cassie.ng@sprg.com.hk

Coco Wong         Tel: (852) 2114 4951

Email: coco.wong@sprg.com.hk

Fax: (852) 2804 2789 / 2527 1196