Press Release

Tao Heung Announces 2016 Annual Results

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Profit after tax Increases by 6.5% to HK$171.9 Million
Profit Attributable to Owners of the parent reaches HK$177.8 Million

(Hong Kong, 30 March 2017) – **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 2016.

During the past financial year, slowing economic growth in Mainland China and Hong Kong resulted in persistently lacklustre consumption sentiment. Owing to a harsh operating environment, the Group's total revenue dropped to HK$4,287.2 million (2015: HK$4,546.5 million). The Hong Kong operations remained the principal revenue contributor of the Group, and accounted for 64.8% (2015: 64.4%) of total revenue, while its Mainland China counterpart accounted for 35.2% (2015: 35.6%) of total revenue. A series of one-off expenses, including the written off and impairment of items of property, plant and equipment and advertising expenditures relating to its 25th anniversary were incurred during the year, and which amounted to HK$19.2 million. However, owing to the management's efforts to implement strict cost controls, the gross profit margin increased by 1.3 percentage points. The profit after tax was increased by 6.5% and profit attributable to the owners of the parent amounted to HK$177.8 million (2015: HK$171.3 million), due mainly to the combination of the aforementioned cost controls and a favourable tax policy in Mainland China that resulted in a significant improvement in the Mainland China operations.

The Board has proposed a final dividend of HK6.0 cents (2015: HK6.0 cents) per share. To celebrate the 25th anniversary of the Group, a special dividend of HK4.0 cents is also proposed. Together with an interim dividend of HK6.0 cents per share already paid, the total dividend will be HK16.0 cents (2015: HK12.0 cents) per share, which represents a dividend payout ratio of 91.5% (2015: 71.6%).

Mr Chung Wai Ping, Chairman of Tao Heung, said, "In reaching our 25th anniversary, we did more than just celebrate; we used the opportunity to make a thorough assessment of where we stand, and more importantly, where we want to go. We subsequently developed a five-year plan that features a four-pronged approach that is encapsulated in the acronym 'M.I.S.S.', which stands for ***Marketing, Innovation, Service and Succession***. With this plan, we aim to elevate the Group to the next level by grasping business opportunities with added vigour all the while maintaining long-term business growth."

Hong Kong Operations

Due to continuously weak consumption sentiment and increasing competition, revenue from the Hong Kong operations declined by 5% to HK$2,779.6 million (2015: 2,925.7 million) for the review year. High operating expenses, including rising rental costs in shopping malls found near large residential area and high labour cost have continued to affect members of the catering industry. However, owing to the management's ongoing efforts to streamline operations, the Group has been less severely affected by the aforementioned cost rises. Nevertheless, profit attributable to owners of the parent contracted by 16.8% to HK$139.4 million (2015: HK$167.5 million). To consolidate operations and increase operational efficiency, a number of restaurants were closed or have undergone restructuring. Consequently, the Group's total operating area has been downsized to 622,200 sq. ft (2015: 663,000 sq. ft), representing a reduction of 6.2% when compared with 2015.

Despite the difficult operating environment, the management has placed significant effort on diversifying the restaurant portfolio of the Group. RingerHut and T Café 1954 have continued to attract customers from different age groups. With respect to Tai Cheong Bakery, it is worth noting that the first outlet in Singapore began operation on 1 July 2016 and a café in Holland Village has been in operation since 17 November 2016 - both shops generated profits during the start-up period. The management trusts that this joint partnership will provide stable revenue for the Group going forward.

As at 31 December 2016, the Group operated a total of 67 outlets (2015: 71 outlets), which include five 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 23 outlets are in operation as at year end (2015: 28); revenue declined by 13.2% to HK$97.2 million.

Mainland China Operations

The slowing economy in Mainland China combined with fierce competition affected the Group's top-line performance in the review year, with revenue declining by 7.0% to HK$1,507.6 million (2015: HK$1,620.8 million). However, EBITDA increased from HK$204.8 million in 2015 to HK$241.6 million in 2016. Also, profit attributable to owners of the parent rose from HK$3.8 million in 2015 to HK$38.4 million as at 31 December 2016.

Due to the changing macro environment in Mainland China, the management took a more pragmatic approach to address conditions. As a result, a new business model was created, the centrepiece of which is an integrated complex consisting of a Chinese restaurant, self-owned supermarket, indoor playground, museum, shops and parking facilities that cover an area of over 22,000 sq.m, and which targets middle- to high-income families who are able to access the complex by car. As at 31 December 2016, two integrated complexes are in operation, while a third complex has been opened subsequent to the review year, i.e. January 2017.

Also as a means of enhancing its competitiveness in Mainland China, the management has continued to introduce technologies to different areas of operation, underscoring its ability to tackle the challenges of labour shortage and high labour cost. The Group has invested approximately HK$3.9 million in R&D, the results of which have included the launched of a robot, called "Robot

Waiter", as well as two other automated machines, namely "Vegetable Frying Machine" and "Seafood Conveying Belt". A further means of leveraging technology to bolster the Group's performance is through e-commerce, with customers now able to make order, payments and order takeout via several mobile platforms. Currently, the takeout business accounts for approximately 5% of segmental revenue, which the management trusts will increase to 8%-10% in the near future. The Group has also launched a mobile application with an "all in one" feature; enabling customers to obtain a queue number, booking, order food and settle their bill.

As at 31 December 2016, the Group operated 46 restaurants in Mainland China, representing a net increase of one restaurant over the preceding year. Furthermore, there are 23 Bakerz 180 outlets (2015: 22 outlets) in operation, which generated total revenue of HK$32.4 million (2015: HK$35.9 million) as at the close of 2016. The Bakerz 180 factory was closed down and its operation has been relocated to our logistic centre in Dongguan during the year, which has not only helped to reduce operating costs, but also centralised operations, thereby increasing production efficiency going forward.

Poultry & Peripheral Business

The poultry and peripheral business performed in a stable manner during the reporting year. Performing more favourably was the supermarket business which accounted for a sizeable proportion of segmental revenue. With the introduction of supermarkets by the Group, such operations will enable it to further expand the retail business.

Prospects

Looking ahead, both the Hong Kong and Mainland China markets are expected to remain challenging as the global economic downturn persists. The Group will therefore introduce a number of strategies to address the unique conditions of each market.

Though consolidation will be the overriding strategy for both the Hong Kong and Mainland China operations as the management aims to raise the efficiency of the Group's business as a whole, it will nonetheless consider opening two to three new restaurants in Hong Kong and up to four restaurants in Mainland China in the coming year. In Hong Kong, the management will also actively seek opportunities for collaboration – initiating joint ventures that bring renowned brands to the city so as to diversify its revenue streams. Already on the table is the launch of Du Hsiao Yueh, a famous Taiwanese restaurant, to open its first branch in Hong Kong in 2017.

As for the Mainland China operations, the Group will continue to enhance its e-commerce capabilities, which will include the promotion of a self-developed "Tao Heung App" that will also have an all in one feature. Furthermore, the Group will continue to bolster its takeaway service given the positive uptake over the past year. As for the peripheral business, besides expanding retail sales via its own supermarkets, the Group will be collaborating with several renowned supermarket operators to supply OEM products in Mainland China, thus creating new revenue streams for the Group.

The Group remains optimistic about its business development overseas and will continue to expand outside of its traditional markets. Through Tai Cheong Bakery, it will leverage its cross-border partnership in Singapore to open up to five stores in the republic in the coming years, followed by openings in Malaysia. The management will also actively explore opportunities to collaborate with local and overseas catering brands in order to attract new customers and facilitate the Group's growth in the future.

Mr Eric Leung, CEO of Tao Heung concluded, "The management will place tremendous effort on diversifying the Group's existing business portfolio all the while being mindful of achieving sustainable growth. We will also leverage all of the Group's competitive edges to grasp emerging opportunities, and thereby 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 2016, the Group operates a network of 161 restaurants and bakery shops in Hong Kong, Mainland China and Singapore 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, 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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