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TAO HEUNG HOLDINGS LIMITED

稻香控股有限公司*

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 573)

CONTINUING CONNECTED TRANSACTIONS SUPPLY OF PRODUCTS TO RESTAURANTS OPERATED BY NON-WHOLLY OWNED SUBSIDIARIES

The Directors would like to announce that the Master Supply Agreement has been entered into whereby the Company has agreed, subject to the terms and conditions therein contained, to supply or procure to supply the Products to the restaurants operated by Miracle Time and Skybest at such prices based on the actual costs plus a mark-up of no more than 30%. Subject to the approval of the Independent Shareholders, the Master Supply Agreement will be effective from 1 January 2008 to 31 December 2010.

Both Miracle Time and Skybest are non-wholly owned subsidiaries of the Company and are connected persons of the Company as Café de Coral, a Substantial Shareholder, currently holds 20% of the issued share capital of Miracle Time and Skybest. The transactions contemplated under the Master Supply Agreement therefore constitute continuing connected transactions (as such term is defined under the Listing Rules) for the Company.

Based on the Annual Cap, the applicable percentage ratios will be on an annual basis more than 2.5% but less than 25% and the annual consideration is expected to be more than HK\$10 million for each of the three years ending 31 December 2010. Accordingly, the transactions contemplated under the Master Supply Agreement will be subject to the reporting, announcement and approval of the Independent Shareholders as required by rules 14A.45 to 14A.48 of the Listing Rules.

A circular containing, among other things, further details of the Master Supply Agreement, a letter from CIMB containing its advice to the Independent Board Committee and the Independent Shareholders and the recommendations of the Independent Board Committee, together with a notice convening the EGM, will be despatched to the Shareholders as soon as practicable.

INTRODUCTION

The Directors would like to announce that the Master Supply Agreement has been entered into whereby the Company has agreed, subject to the terms and conditions therein contained, to supply or procure to supply the Products to the restaurants operated by Miracle Time and Skybest at such prices based on the actual costs plus a mark-up of no more than 30%. Subject to the approval of the Independent Shareholders, the Master Supply Agreement will be effective from 1 January 2008 to 31 December 2010. Particulars of the Master Supply Agreement are set forth below:

Date:	26 November 2007
Parties:	Purchasers: Miracle Time and Skybest, both of which are connected persons of the Company
	Supplier: The Company or its designated subsidiaries
Subject:	The Company will supply or procure to supply the Products to the restaurants operated by Miracle Time and Skybest.
Purchase price:	Cost plus a mark-up of no more than 30% (<i>Note</i>) as determined after arm's length negotiation between the parties.
Term:	Subject to the approval of the Independent Shareholders, the Master Supply Agreement will be effective from 1 January 2008 to 31 December 2010.

Note: Cost refers to the direct material cost of each type of the Products and the mark-up of no more than 30% is determined with reference to the staff costs, utilities and other overheads to be incurred by the food processing and logistics centres of the Group.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group had supplied the Products to the restaurants operated by Miracle Time and Skybest before March 2007 when the Company was still a private company, and the aggregate supplies amounted to approximately HK\$7 million, HK\$11 million and HK\$12 million, respectively, for the three financial years ended 31 December 2006 and approximately HK\$3 million for the two months ended 28 February 2007. However, with the investment of Café de Coral in the Company in March 2007 as a strategic investor and thus resulting in Miracle Time and Skybest becoming connected persons of the Company, and in order to minimise the level of connected transactions for the Company upon listing of its Shares in June 2007, Miracle Time and Skybest began to purchase the Products from independent third parties since March 2007.

Nevertheless, the Group's food processing and logistics centre in Dongguan, the PRC commenced commercial operation in September 2007 and has been working in collaboration with the Group's food processing and logistics centre in Fo Tan, Shatin, Hong Kong to coordinate and perform certain procurement, food-processing, preservation, quality checking, packaging, warehousing and distribution functions for the Group's restaurants in Hong Kong and China. With these two food processing and logistics centres, the Group is able to streamline and centralise various procurement functions for the Group's restaurants which would be beneficial to implement quality control on the food and services provided by the restaurants of the Group. Hence, the Directors consider that the transactions contemplated under the Master Supply Agreement are beneficial to the business development of the Group as a whole.

The food processing and logistics centres are supplying the relevant Products to other restaurants operated by the Group. However, because Miracle Time and Skybest are connected persons of the Company, the transactions contemplated under the Master Supply Agreement will constitute continuing connected transactions for the Company.

The terms of the Master Supply Agreement and in particular, the pricing basis for each type of the Products of the same nature, are identical to the supply of the same (i) to other restaurants operated by the Group; and (ii) by other independent suppliers. On this basis, the Directors (including the independent non-executive Directors) consider that the terms of the Master Supply Agreement are on normal commercial terms and the Annual Cap are fair and reasonable and in the interests of the Shareholders as a whole.

ANNUAL CAP OF THE SUPPLY OF THE PRODUCTS

The maximum annual value of the supply of the Products to Miracle Time and Skybest by the Company for each of the three years ending 31 December 2010 is set forth below:

	Annual Cap for the year ending 31 December		
	2008	2009	2010
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Supply of the Products	32	36	40

The Annual Cap is based on various considerations, including but not limited to (i) the historical purchases of the Products by the restaurants operated by Miracle Time and Skybest from other suppliers; (ii) the anticipated increase in the purchases by the restaurants operated by Miracle Time and Skybest; and (iii) the purchase amount of similar products by other restaurants of the Group with similar scale of operation.

If the transactions contemplated under the Master Supply Agreement for any of the above years exceed the relevant Annual Cap, the Company will comply with the relevant requirements as stipulated under Chapter 14A of the Listing Rules.

LISTING RULES IMPLICATIONS

Both Miracle Time and Skybest are non-wholly owned subsidiaries of the Company and are connected persons of the Company as Café de Coral, a Substantial Shareholder, currently holds 20% of the issued share capital of Miracle Time and Skybest. The transactions contemplated under the Master Supply Agreement therefore constitute continuing connected transactions (as such term is defined under the Listing Rules) for the Company.

Based on the Annual Cap, the applicable percentage ratios will be on an annual basis more than 2.5% but less than 25% and the annual consideration is expected to be more than HK\$10 million for each of the three years ending 31 December 2010. Accordingly, the transactions contemplated under the Master Supply Agreement will be subject to the reporting, announcement and approval of the Independent Shareholders as required by rules 14A.45 to 14A.48 of the Listing Rules.

The Independent Board Committee has been set up to advise the Independent Shareholders on the transactions under the Master Supply Agreement and the proposed Annual Cap. CIMB has been engaged as the independent financial advisor for the purpose of providing independent advice to the Independent Board Committee and the Independent Shareholders on the terms of the Master Supply Agreement and the Annual Cap.

Café de Coral is the substantial shareholder (as such term is defined under the Listing Rules) of each of Miracle Time and Skybest and a Substantial Shareholder. Hence, Café de Coral will abstain from voting at the EGM. Mr. CHUNG Wai Ping, Mr. WONG Ka Wing and Mr. CHUNG Ming Fat are directors of Miracle Time and Skybest and are Directors and controlling shareholders (as such term is defined under the Listing Rules) of the Company. Hence, they have material interests in the Master Supply Agreement and will abstain from voting at the EGM.

A circular containing, among other things, further details of the Master Supply Agreement, a letter from CIMB containing its advice to the Independent Board Committee and the Independent Shareholders and the recommendations of the Independent Board Committee, together with a notice convening the EGM, will be despatched to the Shareholders as soon as practicable.

GENERAL INFORMATION RELATING TO THE COMPANY, MIRACLE TIME AND SKYBEST

The Company is a limited company incorporated in the Cayman Islands and was listed on the Main Board on 29 June 2007. The Group operates Chinese restaurants in Hong Kong and in China under different brands serving a variety of Chinese cuisines targeting at different customers.

Both Miracle Time and Skybest are indirectly owned as to 80% by the Company and 20% by Café de Coral. Each of Miracle Time and Skybest operates restaurant(s) under the brand of *Tao Heung* and *Chao Inn*, respectively.

DEFINITIONS USED IN THIS ANNOUNCEMENT

Unless the context requires otherwise, the capitalised terms used in this announcement shall have the following meanings:

- “Annual Cap” means the anticipated aggregate annual value of the transactions contemplated under the Master Supply Agreement for each of the financial years ending 31 December 2010;
- “Board” means board of the Directors;
- “Café de Coral” means Café de Coral Holdings Limited, whose shares are listed on the Main Board and the ultimate holding company of Perfect Plan International Limited, a Substantial Shareholder;
- “China or PRC” means the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan;
- “CIMB” refers to CIMB-GK Securities (HK) Limited, a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders;
- “Company” means Tao Heung Holdings Limited 稻香控股有限公司*, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board;
- “connected person” has the meaning ascribed to it under the Listing Rules;
- “Directors” means the directors of the Company;
- “EGM” means the extraordinary general meeting proposed to be convened by the Company for the purpose of approving the transactions contemplated under the Master Supply Agreement;
- “Group” means the Company and its subsidiaries;
- “Hong Kong” means The Hong Kong Special Administrative Region of the PRC;

“Independent Board Committee”	means a committee of the Board comprising all the independent non-executive Directors established for the purpose of considering and, if appropriate, making recommendations to the Independent Shareholders on the transactions contemplated under the Master Supply Agreement;
“Independent Shareholders”	means Shareholders who are not required to abstain from voting at the EGM in relation to the resolutions for approving the transactions contemplated under the Master Supply Agreement;
“Listing Rules”	means The Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	means the main board of the Stock Exchange;
“Master Supply Agreement”	means the master supply agreement dated 26 November 2007 entered into between the Company, Miracle Time and Skybest for the supply of the Products;
“Miracle Time”	means Miracle Time Enterprise Limited, a non-wholly owned subsidiary of the Company holding 80% of its issued share capital with the remaining 20% currently held by Café de Coral. Hence, Miracle Time is a connected person of the Company;
“percentage ratios”	refers to the percentage ratios under rule 14.07 of the Listing Rules;
“Products”	mean the products supplied or procured to be supplied by the Company to Miracle Time and/or Skybest for their daily consumption in the course of their respective businesses. The Products shall include, but without limitation to, fresh food, semi-processed food, food ingredients, utensils, packaging materials, printing materials, uniform and such other materials as agreed between the parties to the Master Supply Agreement from time to time;
“Share(s)”	means the ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	means the holder(s) of the Shares;

- “Skybest” means Skybest International Investment Enterprise Limited, a non-wholly owned subsidiary of the Company holding 80% of its issued share capital with the remaining 20% currently held by Café de Coral. Hence, Skybest is a connected person of the Company;
- “Stock Exchange” means The Stock Exchange of Hong Kong Limited;
- “Substantial Shareholder” means the substantial shareholder (as such term is defined under the Listing Rules) of the Company; and
- “HK\$” means Hong Kong dollars, the lawful currency of Hong Kong.

By order of the Board
Tao Heung Holdings Limited
CHUNG Wai Ping
Chairman

Hong Kong, 26 November 2007

As at the date of this announcement, the board of the Directors comprised twelve Directors, of which six are executive Directors, namely Mr. CHUNG Wai Ping, Mr. WONG Ka Wing, Mr. CHUNG Ming Fat, Mr. LEUNG Yiu Chun, Ms. WONG Fun Ching and Mr. HO Yuen Wah; two are non-executive Directors, namely Mr. FONG Siu Kwong and Mr. CHAN Yue Kwong, Michael and four are independent non-executive Directors namely Mr. LI Tze Leung, Professor CHAN Chi Fai, Andrew, Mr. MAK Hing Keung, Thomas and Mr. NG Yat Cheung.

* *For identification purpose only*