



## Tao Heung Announces 2018 Interim Results

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### ***Operating environment to remain challenging Business strategies in place to achieve a moderate growth in revenue and profit attributable to owners of the parent***

(Hong Kong, 23 August 2018) – **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 2018 (“review period”).

As at 30 June 2018, the Group recorded revenue totalling HK\$2,079.8 million, representing a year-on-year increase of 5.4% (2017: HK\$1,973.0 million). The increase was principally driven by same-store sales growth, in turn the result of the rise in per head spending particularly for seafood and including during late night dining – “all you can eat hotpot”. Profit attributable to owners of the parent rose incrementally to HK\$51.3 million (2017: HK\$40.8 million). Excluding the compulsory closure of the Group’s pig farm by the Mainland China Government during the period, which resulted in a one-time loss of HK\$16.3 million, profit attributable to owners of the parent would have increased by 53.7% to HK\$62.7 million. The Hong Kong operations has remained the principal revenue contributor of the Group, accounting for 61.7% (2017: 63.9%) of total revenue, with the Mainland China operations accounting for the remaining balance at 38.3% (2017: 36.1%).

The Board has proposed an interim dividend of HK 5.50 cents per share for the six months ended 30 June 2018, which represents a dividend payout ratio of 109.0 %.

**Mr Chung Wai Ping, Chairman of Tao Heung**, said, “In view of the persistently challenging nature of the catering sector, the Group will leverage the solid foundation offered by its traditional Chinese restaurants to introduce a variety of cuisine that suit different tastes and demographic. At the same time, the Group will continue to revamp its restaurants to increase their appeal to new generations of customers. Furthermore, it will continue to explore various marketing strategies and possible collaboration with other retail brands to diversify product offering.”

#### **Hong Kong Operations**

The Hong Kong operations achieved a modest rebound in revenue, amounting to HK\$1,283.2 million (2017: HK\$1,260.5 million) for the reporting period under review with profit attributable to owners of the parent recorded at HK\$48.2 million (2017: HK\$27.3 million).

In the face of fierce competition, the Group employed several seasonal marketing strategies, including the promotion of seafood which is among the Group’s specialities. Yet another strategy involved the continuation of the late supper session – “all you can eat hotpot” to attract target customers. All these helped to further drive same-store sales growth as well as increase per head spending. Besides such efforts, the Group has sought to further its consolidation efforts. As a

consequence, eight restaurants underwent renovation since the second half of 2017, including a newly-renovated store in Mong Kok, namely, Tao Heung – The Pier Market Store which specialises in seafood was opened in mid-June adopting a style that more readily appeals to the target affluent consumer – a segment that not only appreciates fine Chinese cuisine but also a suitably sophisticated ambience. Also, a number of restaurants were either closed or rightsized. As at the end of the review period, the Group has a total of 60 restaurants in operation (2017: 66 shops), along with two (2017: three) RingerHut which are targeted towards customers inclined to non-Chinese cuisine.

In the Group's effort to diversify its restaurant portfolio, several collaborations were realised, with more partnerships in the pipeline. Among the successes worth noting include Du Hsiao Yueh, which specialises in Taiwanese cuisine. Having opened its first Hong Kong branch in Tsim Sha Tsui in June 2017, the second restaurant located in Causeway Bay began operation during the review period. Another collaboration that the Group has engaged in involves Flamingo Bloom, which is a modern, chic Chinese tea salon that opened at ifc mall subsequent to the review period, i.e. July 2018. The management trusts that such collaborations will not only broaden the Group's portfolio, but will also provide it with greater flexibility in terms of business development.

With regard to Tai Cheong Bakery, the Group has continued to explore overseas partnerships such as that enjoyed in tapping the Singapore market. There are 18 outlets (2017: 19 outlets) in operation as at the review period. Besides consolidating its bakery network, further efforts will be made at increasing distribution channels through collaboration with different brands and supermarkets.

### **Mainland China Operations**

The Mainland China operations contributed HK\$796.6 million (2017: HK\$712.5 million) in revenue during the review period while profit attributable to owners of the parent fell to HK\$3.1 million (2017: HK\$13.5 million) which is due to the recognition of the one-time loss of HK\$16.3 million regarding the compulsory closure of the Group's pig farm by the Government during the review period.

Besides rightsizing, the Group has also adopted a transformative approach in order to attract customers, offering a greater variety of dishes that are both gastronomically and visually enticing. Such innovation has been witnessed before in the form of the Group's integrated complex business model, comprising Chinese restaurant, self-owned supermarket, indoor playground, museum, shops and parking facilities covering over 22,000 sq. m. The three family-oriented complexes that the Group operates have continued to deliver stable income during the review period, attracting the patronage of middle-to high-income families. Yet another facet of the Mainland China operations that has performed particularly encouragingly is the wholesale business. Supported by the Group's Dongguan factory, which constitutes an important competitive advantage, sales of packaged frozen food increased by 26.3%. Such an increase is also a reflection of the Group's increasing ability to utilise e-commerce, including leveraging ties with online platforms such as Tmall.com (天貓) and JD.com (京東) – enabling the Group's packaged food to reach customers nationwide. Yet another example of successfully tapping the internet involves its takeout service, and which it utilises such platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了嗎).

As at 30 June 2018, the Group operated a total of 46 restaurants (2017: 45 restaurants) in Mainland China. It also operated 26 Bakerz 180 outlets during the period, which contributed combined revenue of HK\$14.5 million (2017: HK\$14.2 million). Cost control has remained the primary focus of the Group, hence, besides capitalising on the Dongguan logistics centre, the Group has also sought to tap online sales channels to lower the impact of operating physical stores.

### **Peripheral Business**

The supermarket business has performed well and contributed a fair proportion of revenue to the Group during the review period. Leveraging experience gained from the production of OEM products for the Hong Kong market, the Group's private label has also played a greater role in contributing to the turnover of the peripheral business. To encourage development of this segment, the Group will utilise online sales channels to reach out to key region of Mainland China, as well as place efforts on the packaging food to boost the wholesale business.

### **Prospects**

Looking ahead, the management anticipates the Group will maintain encouraging growth both in Hong Kong and Mainland China owing to market-specific strategies that have been implemented. It will nonetheless make timely adjustments as needed based on the latest consumption and spending habits to ensure sustainable business development. At the same time, the management will continue to consolidate and invigorate its core operations in Hong Kong and Mainland China in order to provide even better quality food and services.

With regard to the Hong Kong operations specifically, the management will actively seek opportunities for co-operation so as to introduce an even greater number of renowned brands to the city while diversifying the Group's revenue streams and expanding its clientele. As for the Tai Cheong Bakery business, the Group will likewise seek collaborative opportunities, particularly with supermarkets with the purpose of increasing its distribution channels.

In Mainland China, the Group will leverage its logistics centre to support its various operations. With reference to the wholesale business, the Group will employ both online and offline channels to encourage growth, the former will involve the use of relevant e-commerce platforms, while the latter will entail strengthening ties with supermarkets and distributors. Also with e-commerce in mind, the Group will continue to explore various online platforms to attract customers from different parts of the country. With regard to its brick-and-mortar operation, apart from focusing on major metropolitan centres such as Shenzhen and Guangzhou, the Group will also consider other cities in the Greater Bay Area to open new restaurant so as to capture the potential of this dynamic region.

**Mr. Eric Leung, CEO of Tao Heung** concluded, "Though the management is encouraged by recent developments, it is fully aware that tremendous effort is necessary to sustain business momentum. It will therefore continue to leverage all of the Group's competitive edges to grasp emerging opportunities and tap new revenue streams so as to deliver stable returns to its 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 23 August 2018, the Group together with its associates operate a network of 153 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, Joyous One, Cheers Palace, RingerHut, Tai Cheong Bakery, T CAFÉ 1954, Bakerz 180, Tao's Kitchen, Du Hsiao Yueh and Flamingo Bloom. Tao Heung was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2007.

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