Press Release

Tao Heung Announces 2020 Interim Results

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(Hong Kong, 28 August 2020) – **Tao Heung Holdings Limited** ("Tao Heung," or together with its subsidiaries the "Group;" stock code: 573), a leader in Chinese culinary trends, announced its interim results for the six months ended 30 June 2020.

During the six months ended 30 June 2020, the Group recorded total revenue of HK$1,147.4 million (2019: HK$2,027.7 million). Loss attributable to owners of the parent amounted to HK$101.2 million (2019: profit of HK$72.0 million). During the period, impairment of right-of-use-assets of HK$15.0 million (2019: Nil) and items of property, plant and equipment of HK$3.7 million (2019: HK$10.8 million) were recorded. One-off subsidies amounted to HK$32.6 million (2019: Nil) were granted by the HKSAR Government under the Anti-epidemic Fund during the period. The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020.

Mr. Chung Wai Ping, Chairman of Tao Heung, said, "It is worth noting that the logistics centre in Hong Kong has diversified revenue streams of the Group during the period. Packaged foods have successfully been exported overseas, including France, Vietnam, Africa, and the Group is planning to enhance its global presence still further, potentially exporting to Australia and Cambodia while the logistics centre in Dongguan has been in operation throughout the pandemic period, and increased shifts to support the rising demand for chilled and packaged food so as to increase its market share in this business segment."

Hong Kong Operations

The Hong Kong operations experienced a decline in top-line performance; recording revenue of HK$703.8 million (2019: HK$1,252.1 million) for the review period. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) entered a loss position of HK$7.6 million (2019: profit of HK$99.6 million). Furthermore, loss attributable to owners of the parent of HK$41.3 million (2019: profit of HK$45.1 million) was recorded.

The pandemic has brought unprecedented challenges to the Hong Kong operation. Some restaurants were closed at dinner time for two weeks and subsequently reopened as conditions began to improve from late April onwards. However, due to the third wave of infections, all of the restaurants were closed for 17 days from July to August. Amid such difficult conditions, Tao Heung promptly initiated internal controls to manage costs and enhance efficiency as part of Group's efforts to optimise operations. Marketing strategies such as "Half-price dim-sum" during mornings and tea time which proved to be popular. Also, the "One-dollar chicken" promotion that ran from May to June at restaurants were also employed to bolster sales and customer traffic. Other promotions were also employed, such as "All-you-can-eat Hot-Pot" which supported the Group's objective of generating diverse revenue streams. Moreover, the Group has been negotiating with the landlords for rent concessions. Furthermore, the Group utilised favourable support measures from the government to reduce certain expenses.

On the operation front, an enhanced purchasing system has been employed during this critical period to improve cost management. Together with shrewd manpower allocation applied across all restaurants, associated costs have continued to edge downward. To further optimise manpower and enhance the dining experience, the Group has introduced the "Tea Trolley (茶車)" to its restaurants, which allow customers to have fresh tea made by themselves, a practice that perfectly complements Chinese cuisine. Moreover, mobile ordering services are applied across most of the restaurants to encourage quicker turnover. In view of the current pandemic, the Group has also partnered with delivery service providers to tailor-make packages that are suitable for different food portions.

All in all, even though revenue was heavily impacted by the COVID-19 pandemic, Tao Heung has taken the opportunity to step up efforts on improving services, as well as be fully prepared for the resumption of business post-pandemic. It has been closely monitoring changing consumption patterns and behaviour, and can well adapt to changing trends.

The Group operates a number of restaurants across Hong Kong, which, as at the review period totalled 49 establishments. Owing to consolidation and rightsizing of restaurants in preceding years, efforts at reducing costs have been readily achieved. Tao Heung will maintain its focus on strengthening its standing as a renowned Chinese culinary group, so as to help underpin the stature of its self-owned Chinese restaurant brands.

With regard to the Tai Cheong bakery business, it has been able to uphold its standing as a premium bakery operation since its rebranding exercise. The business has a strong foothold in Hong Kong, operating 15 outlets during the review period. This network includes shops in prime and fashionable locations, such as the new shopping mall V Walk and the Peak Galleria which appeal to customers from different districts and all walks of life. In terms of overseas presence, Singapore has continued contributing revenue to Tai Cheong through five outlets during the review period.

Mainland China Operations

The Mainland China operations generated HK$443.6 million (2019: HK$775.6 million) in revenue during the review period, with EBITDA entering a loss of HK$19.3 million (2019: profit of HK$96.8 million). Loss attributable to owners of the parent amounted to HK$59.9 million (2019: profit of HK$26.9 million).

Due to the COVID-19 pandemic, the Group's restaurants were closed from the end of January to March 2020. Certain restaurants subsequently offered delivery services in March, with all restaurants – 45 in total as at the review period, resumed operations from April onwards. While revenue and profit invariably recorded declines respectively, revenue from restaurants in Dongguan and Central China in April to June recorded increases compared with the same period last year.

In the face of challenging business conditions, the Group has redoubled efforts in managing costs, subsequently employing a variety of measures, such as the reallocation of staff and increasing staff training to ensure they can take on a variety of tasks. Efforts have also been made to the centralised kitchen system to ensure that cooking disciplines pertaining to kitchen, dim sum and roasted items ("廚、點、味") are well integrated. Also, negotiations were held with landlords for more amicable rental terms. Furthermore, the Group utilised favourable support measures from the government, which enabled it to reduce certain expenses.

Yet another area that has gained greater consideration is the takeaway segment. Similar to Hong Kong, takeaway and delivery services have played important roles in generating sales during the pandemic. Through the implementation of a nationwide mobile ordering platform that is linked to the Group's restaurant network, customers can now more efficiently place food orders, which were much appreciated by customers. And to increase stickiness, specially developed delivery menus have been introduced to meet customers' tastes, resulting in a three-fold year-on-year increase in sales from this segment.

The three integrated complexes have continued to bring in new revenue streams to the Group during the review period. With regard to its wholesale business, it has provided a robust backbone for extending the Group's brand to the online realm, and particularly packaged OEM products during the pandemic. On the supermarket side, relevant collaborations have facilitated growth and allowed the Group to reach a wider spectrum of customers. Sales and marketing efforts have subsequently been increased to further strengthen contributions from the wholesale business, leading to a more expansive sales network and greater market penetration. As a whole, revenue from this business model has increased 92% despite the pandemic.

The Bakerz 180 bakery operation consisted of 21 outlets as at the review period. Ongoing effort at streaming down costs has been the principal business strategy. Towards this objective, the Group has made full use of the Dongguan logistics centre, which also provides a major competitive advantage in supporting the supply of baked goods to the wholesale business; allowing for collaborations with caterers and supermarkets, as well as for branchingout to online sales.

Prospects

Amid global economic uncertainties and far-reaching repercussions from the pandemic, Tao Heung's integrated business model has provided the Group with a solid foundation for supporting business operations. In the immediate future, the Group will nonetheless exercise tremendous caution in managing its assets and working capital and will reserve greater resources for future development. As for addressing present developments on the restaurant front, the Group will devise more diverse marketing strategies so its traditional Chinese cuisine continues to have a solid footing for progress, and thus uphold the Tao Heung brand's reputation for Chinese culinary excellence. Also, in line with current times, efforts will be placed on advancing the Group's delivery service, including raising capacity, introducing new packaging, and updating menus to address consumption trends. Developing the right strategies to adapt to changing spending habits and preferences will clearly be paramount in ensuring sustainable business development. For the Hong Kong and Mainland China businesses collectively, the Group will bolster the wholesale business, both offline and online. In the case of the former, this will involve tapping more supermarkets, where as for the latter, the Group will explore more e-commerce platforms to attract customers from different regions, so as to raise revenue and profit while concurrently increase the Group's share of the wholesale market. To support such endeavours, the Group will fully utilise its logistics centre, which, with its high level of automation has allowed for flexible operating hours, and equally important, the uninterrupted output of packaged food during the COVID-19 crisis.

Mr. Chung Wai Ping, Chairman of Tao Heung, concluded, "The management remains confident in the Group's ability to maintain business stability amid these unprecedented times. Aside from leveraging the Group's many competitive edges, management will place significant effort on bolstering operations, diversifying the product portfolio, and grasping emerging opportunities so as to access new revenue streams, leading ultimately to the delivery of fair returns to 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 30 June 2020, the Group together with its associates operate a network of 130 restaurants and bakery shops in Hong Kong, Mainland China and Singapore under 14 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, Bakerz 180. Tao Heung was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2007.

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