Press Release

Tao Heung Announces 2019 Interim Results
Profit attributable to owners of the parent increased by 40.4% year-on-year to HK$72.0 million

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(Hong Kong, 22 August 2019) – **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 2019.

As at the six months ended 30 June 2019, the Group recorded total revenue of HK$2,027.7 million (2018: HK$2,079.8 million), a modest decline of 2.5% year-on-year resulting from the ongoing renovation of several restaurants during the review period. Gross profit margin has nonetheless increased moderately owing to strict cost controls implemented by the management. Profit attributable to owners of the parent achieved a double-digit increase of 40.4% to HK$72.0 million (2018: HK$51.3 million), which was attributed to the strategic consolidation of stores combined with the successful tailoring of menus to attract different tiers of customers.

The Board has proposed an interim dividend of HK6.00 cents per share for the six months ended 30 June 2019, which represents a dividend payout ratio of 84.7%.

Mr Chung Wai Ping, Chairman of Tao Heung, said, “Through ongoing efforts at central kitchen operations and frontline workflow re-engineering, the integration of cooking disciplines pertaining of kitchen, dim sum and roasted items (“廚,點,味”) become feasible which redefined the traditional Chinese restaurant back-end activities. Hence the productivity of our restaurants has been raised effectively.”

<u>Hong Kong Operations</u>

The Hong Kong operations contributed revenue totalling HK$1,252.1 million (2018: HK$1,283.2 million) during the review period, with profit attributable to owners of the parent at HK$45.1 million (2018: HK$48.2 million).

Despite challenging business conditions, the Hong Kong operations were able to attract its target consumers through proven marketing strategies, such as the “Half-priced dim-sum” promotion that is offered during morning hours. Yet further means of winning customers has been the renovation of restaurants as part of its consolidation efforts complemented by the introduction of revised menus, which are aimed at enhancing the overall dining experience and diversifying its customer base respectively. Such efforts have also allowed the Group to achieve its goal of attracting a younger demographic as a new revenue stream. Consequently, an increase in customer traffic was recorded, and more significantly, a rise in same-store sales of 1.8% and increase in average spend per head. To support long-term development of the Hong Kong operations as well as raise efficiency in term of procurement, the Group has started to migrate the enhanced purchasing system successfully implemented in Mainland China to Hong Kong including the adoption of the tendering process, identifying new suppliers and market data analysis aiming for the best price and quality of ingredients to be purchased, as well as better inventory control leading to higher overall operational efficiency.

As of 30 June 2019, the Group has 55 restaurants (2018: 60) in Hong Kong.

As regards the Tai Cheong bakery business, efforts at revitalising its brand image have at the same time helped to reinforce its strong position in both Hong Kong and overseas. Furthermore, its expansion in the region now extends beyond Singapore, to a new beachhead in Taiwan. As for the Mainland China market, the Group has undergone a feasibility study for opening in major transportation hubs with our business partner. As at the review period, there are a total of 19 Tai Cheong bakeries in operation (2018: 18), with two more to open in the second half year. The Group's focus will continue to be on establishing bakeries in prime, trendy locations such as the new shopping mall V Walk and Peak Galleria.

Mainland China Operations

The Mainland China operations recorded revenue of HK$775.6 million (2018: HK$796.6 million) as at the close of the review period. Profit attributable to owners increased notably to HK$26.9 million (2018: HK$3.1 million).

During the review period, the Mainland China operations achieved a turnaround, with same store sales growth of 3.3% recorded. The Group's strategy early on to consolidate operations underpinned the business improvement despite challenging consumption sentiment. The combination of restaurant renovations and revised menus has proved particularly effective at attracting younger customers; increasing traffic from this important demographic. Furthermore, after the successful implementation of an enhanced purchasing system proposed by the Consulting Company together with the continuous promotion of ordering and payment via mobile devices have resulted in greater cost management efficiency at the restaurant level.

The three integrated complexes have also played unique roles in facilitating the operations development; raising brand equity among middle and high-income families by offering a diverse range of products and services. Such complexes have resulted in more collaborative opportunities as well, involving B2B, B2C and OEM related activities, building ties with e-commerce and catering businesses. The Group has also linked up with different supermarket chain's operators and caterers, which will contribute to the wholesale business, and will be fully supported by the Group's factory in Dongguan. As for the e-commerce operation, its partnership with popular online platforms Tmall.com and JD.com has resulted in the significant growth of the Group's branded products, with the sales of packaged food increasing by 43% during the review period.

As at 30 June 2019, the Group has 45 restaurants (2018: 46 restaurants) in operation in Mainland China. It also has 27 Bakerz 180 outlets (2018: 26 outlets) in the country.

Prospects

Despite uncertainty surrounding the global economy, the Group's growth strategy and consolidation efforts have proved to be effectual. The encouraging performance has underscored the importance of preparing for challenges, and that an upturn can be realised even in challenging times.

Going forward in Hong Kong specifically, the Group will continue to employ different development strategies and explore possible collaborations with various restaurants and retail brands. In the case of the former, such strategies will capitalise on the preferences of consumers in their specific market and draw on the latest consumption trends. Central to such strategies will be to consolidate and invigorate core business operations, supported by the delivery of higher quality food and services. As for the latter, the Group will leverage partnerships to drive development of brands and product offerings, reinforce its position in the culinary segment, and offer greater variety of cuisine to suit different demographics and tastes: even opening the way to enter overseas markets.

As for the Mainland China operation, the Group will fully utilise its logistics centre to support its wholesale business as the operation continues to tap opportunities arising from its omnichannel exposure. This also complements the Group's overall aim for the Mainland China operation to capture e-commerce-related opportunities in view of its growing application, and to explore new online platforms to attract customers from across the country. The brick-and-mortar component will also be developed with the opening of restaurants in cities found in the Guangdong-Hong Kong-Macao Greater Bay Area, such as Jiangmen etc., apart from the metropolitan centres such as Shenzhen, Wuhan and Shanghai, where the Group already has a presence.

Mr Eric Leung, CEO of Tao Heung concluded, "Looking forward, the management is expecting both Hong Kong and peripheral economy will be enveloped by various kind of uncertainties which create lots of challenges to the catering industry. However, having already placed tremendous effort on diversifying its product portfolio and optimising all areas of operation, the Group is heartened that such labours have begun to bear fruit. Constituting important competitive edges, they will duly be utilised by the Group to grasp new opportunities, thus further build growth momentum that leads to new revenue streams and optimal returns for 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 2019, the Group together with its associates operate a network of 152 restaurants and bakery shops in Hong Kong, Mainland China and Singapore under 17 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, Du Hsiao Yueh, Flamingo Bloom and Hanlin. Tao Heung was listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2007.

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