



Hung Fook Tong Announces 2019 Interim Results

***Profit attributable to owners of the Company Up 19.0% Year-on-Year
Retains Leading Position in the Hong Kong Retail Market***

Financial Highlights

(HK\$'000)	For the six months ended 30 June		
	2019	2018	Change
Revenue (for continuing operations ¹)	390,903	387,348	+ 0.9%
Gross profit (for continuing operations ¹)	242,687	234,697	+ 3.4%
Gross profit margin (for continuing operations ¹)	62.1%	60.6%	+ 1.5 ppt
Profit attributable to owners of the Company	5,055	4,248	+ 19.0%
Earnings per share (HK cent)	0.77	0.65	+ 18.5%

(Hong Kong, 23 August 2019) – **Hung Fook Tong Group Holdings Limited** (“Hung Fook Tong” or the “Company”, together with its subsidiaries, the “Group”; stock code: 1446), the top retailer of Chinese herbal products in Hong Kong, has announced its unaudited condensed consolidated interim results for the six months ended 30 June 2019 (“1H2019”).

During 1H2019, consumer sentiment in Hong Kong and Mainland China has become more cautious owing to ongoing China-US trade tensions, compounded by uncertainties in the macro environment. Despite the lacklustre environment, the Group was still able to record revenue growth from the Hong Kong retail business – up 5.0%, owing to strong brand recognition from local consumers. Such increase has offset the decline in wholesale business on both sides of the border. As a consequence, total revenue for continuing operations increased modestly by 0.9% year-on-year to HK\$390.9 million (for the six months ended 30 June 2018 (“1H2018”): HK\$387.3 million).

Gross profit for continuing operations edged up by 3.4% to HK\$242.7 million (1H2018: HK\$234.7 million), due to the robust performance of the Hong Kong retail operation. As a result, gross profit margin for continuing operations rose to 62.1% (1H2018: 60.6%).

Despite the fact that associated one-off expenses of HK\$2.5 million were incurred mainly due to the closure of the Suzhou plant, profit attributable to owners of the Company totalled HK\$5.1 million (1H2018: HK\$4.2 million), representing a year-on-year increase of 19.0%, owing to an increase in gross profit and termination of retail operations in Mainland China. Excluding the aforementioned one-off expenses, profit attributable to owners of the Company would have been HK\$7.6 million. The new facilities in Kaiping City, Guangdong Province, commenced full production in the second quarter of 2019, thereby expanding the Group’s production capacity.

¹ Continuing operations do not include the Group’s retail business in the PRC (“Discontinued operation”).

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, “While we’re challenged by the existing volatile economic conditions and weak consumer sentiment, the Group is still able to maintain its leadership in the Hong Kong retail market and cement its position in Mainland China owing to over 30 years of solid experience and strong brand recognition.”

Business Review

Hong Kong Retail

The Hong Kong retail business has continued to serve as primary revenue contributor of the Group, generating HK\$296.5 million (1H2018: HK\$282.3 million), up 5.0%, and accounting for 75.8% of total revenue due to favourable demand for the Group’s Joyous Series products (自家喜慶系列), an expanded product range that now includes several postnatal soups and food items (坐月湯水及食療), as well as a notable increase in coupon sales. Segment profit rose appreciably to HK\$43.3 million, up 17.6% from HK\$36.8 million in 1H2018, which was attributable to higher revenue and gross profit margin resulting from the effective control of operating costs.

The Group has added four new shops, resulting in a total of 112 self-operated shops in Hong Kong as at 30 June 2019. The Group has thereby maintained its standing as the largest herbal retailer in Hong Kong based on retail network size. Moreover, the number of JIKA CLUB members has reached 870,000.

To reach customers in an innovative and more engaging manner, the Group has collaborated with other commercial brands and operated five innovative smart shops namely “Home+” as at 30 June 2019. All of these shops are equipped with smart technologies that allow customers to enjoy the ultimate in self-service convenience.

Wholesale

The wholesale segment contracted by 10.1% year-on-year to HK\$94.4 million (1H2018: HK\$105.0 million), owing to sales declines in both the Hong Kong and Mainland China markets. Segment loss amounted to HK\$4.5 million (1H2018: loss of HK\$2.1 million), which can be attributed to a decline in segment results from the Hong Kong wholesale operation resulting from lower revenue against higher selling expenses. A loss was recorded from the Mainland China wholesale business, yet increasingly stable cost control has been observed as the Kaiping plant commenced full production during the review period.

The Hong Kong wholesale operation contributed revenue of HK\$56.0 million (1H2018: HK\$62.4 million), down 10.2% in 1H2019 principally due to lower revenue from a couple of key accounts, the orders of which have returned to normal levels since July 2019. Separately, the Group has expanded its sales channels by tapping more food and beverage operators, the majority of which are buffet-style and hot pot restaurants. The Group has also bolstered its product offerings with the introduction of two

new drink flavours, namely, Passion Fruit with Honey Drink (百香果蜜) and Begonia Fimbristipula Hance Drink (紫背天葵).

Expanding its footprint overseas, the Group's operation in Taiwan has continued to perform in a stable manner, as its Salted Lime Drink (咸青檸) and Iced Lemon Tea Drink (凍檸茶) became available at FamilyMart convenience stores.

In Mainland China, wholesale revenue dropped 10.0% year-on-year to HK\$38.4 million (1H2018: HK\$42.7 million), mainly due to the depreciation of the Renminbi, as well as less revenue from key customers from the Beijing and Shanghai markets. As at 30 June 2019, the Group has an extensive distribution network, comprising 76 distributors covering 20 provinces and 47 cities; among which Guangzhou continues to be the largest revenue contributor. Furthermore, the Group partnered with about 30 online retailers including SF-Express (順豐生鮮), Jingdong (京東超市), Hema Xiansheng (盒馬鮮生) and Miss Fresh (每日優鮮) to strengthen its reach across Mainland China.

Discontinued Operation

The Group elected to cease all retail operations in Mainland China in December 2018. Thus during 1H2019, no revenue or profit/loss has been recorded from this segment (1H2018: revenue of HK\$4.5 million and segment loss of HK\$2.1 million). With the conclusion of retail operations in Mainland China, the Group has been able to better allocate and focus its human, financial and operational resources on its retail business in Hong Kong, as well as advance its overall wholesale business.

Prospects

Looking ahead, prudent consumer sentiment in Hong Kong and Mainland China is expected to persist under the prolonged China-US trade dispute, and uncertainties in both the external and domestic environment. The Hong Kong Retail Management Association has forecasted a double-digit decline in retail sales value for the full 2019 year, due to ongoing social unrest. In view of such developments, the Group will remain flexible towards business development and vigilant to market changes. It nonetheless remains confident that, given the quality of its products and innovative solutions, the Group will continue to strengthen its leadership in the Hong Kong retail market, while at the same time bolster its wholesale operation in Mainland China.

Hong Kong Retail

The Group targets to open approximately six new outlets in the second half year, which will mainly be located in MTR stations, including Admiralty, North Point, Kowloon Bay and along the West Rail Line. Subsequent to the review period, three shops have opened in August.

The Group will make further investments in advanced technologies to achieve progress. Three more HUNG+ (鴻家) Smart Vendor machines will be added in the second half of 2019. Also, an JIKA CLUB

mobile application enhancement will be introduced to enrich the user experience.

On the product front, the Group will continue to expand the Joyous Series by launching a number of new products by the end of 2019, including a new flavour of Organic Chicken Essence (補氣健脾有機滴雞精) which has been introduced in August, beauty drinks and a greater variety of postnatal soup and meal choices. The Group will also tap the wedding and gift giving market by partnering with HiWalk (海邊走走), which is a popular Taiwan hand-made egg roll brand, to raise awareness of Hung Fook Tong wedding gift cards.

Wholesale

In Hong Kong, the Group will launch new ambient drinks such as Lemon and Job's Tears Seed Drink (檸檬薏米) and Aloe Vera Drink (粒粒蘆薈飲), as well as some fresh products to drive sales. In addition, the Group will expand into the non-beverage wholesale market by leveraging its well established third-party retail network. Among the frozen seafood and snacks launched or set for launch at supermarkets or convenience stores in the second half year include Frozen Cod Fish Ball (深海鱈魚丸), Cod Fish Tofu (深海鱈魚豆腐) and Salmon Fish Skin (挪威三文魚皮) under the Hung Fook Tong brand.

Across the border, the Group will seek to tap more sales channels such as those for schools and restaurants to reinforce its competitive advantage in Southern China, while seek to penetrate second-tier cities in eastern Guangdong. It will also partner with online retailers, comprising both B2C and B2B platforms, which will be supported by more impactful online promotions.

Dr. Ricky Szeto, General Manager and Executive Director of Hung Fook Tong, concluded, "With a solid foundation, strong brand value and effective business segmentation, the Group's management remains optimistic that we will be capable of overcoming uncertainties and challenges during the rest of 2019."

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About Hung Fook Tong (Stock Code: 1446)

Established in 1986 and listed on the Main Board of The Stock Exchange of Hong Kong Limited in July 2014, Hung Fook Tong is a modern wellness concept food and beverage enterprise, offering a wide range of additive-free healthy food products for more than three decades. Currently, it has around 110 retail shops in Hong Kong, thus it is the top retailer of Chinese herbal products in Hong Kong in terms of the number of retail shops. To capture the growth potential of the huge consumer market in Mainland China, the Group's long shelf-life drinks and fresh drinks are sold to third party retailers and distributors covering a number of cities in Mainland China.

Website: www.hungfooktong.com

Media Enquiries:

Hung Fook Tong Group Holdings Limited

Agnes Luo	Tel: 3651 2197	Email: agnesluo@hungfooktong.com.hk
Lillian Hui	Tel: 3651 2248	Email: lillianhui@hungfooktong.com.hk
Miki Ho	Tel: 3651 2246	Email: mikiho@hungfooktong.com.hk