[For immediate release]

Hung Fook Tong Announces 2018 Annual Results

Revenue for continuing operations Up 7.3% year-on-year
Profit attributable to owners of the Company Up 15.6%

Financial Highlights

(HK$'000)	**For the year ended 31 December**		
	2018	**2017**	**Change**
Revenue (for continuing operations[1])	**783,383**	729,776	+7.3%
Gross profit (for continuing operations[1])	**476,347**	454,639	+4.8%
Gross profit margin (for continuing operations[1])	**60.8%**	62.3%	-1.5 ppt
Profit attributable to owners of the Company	**9,374**	8,106	+15.6%
Profit attributable to owners of the Company excluding one-off expenses[2]	**28,359**	8,106	+249.9%
Earnings per share for profit attributable to owners of the Company (HK cent)	**1.43**	1.24	+15.3%
Final and special dividends per ordinary share (HK cent)	**0.79**	0.68	+16.2%

(Hong Kong, 28 March 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 annual results for the year ended 31 December 2018 ("2018").

During the financial year, the Hong Kong and Mainland China retail sectors experienced greater headwinds as consumer confidence began to erode in the wake of the Sino-US trade dispute. In view of the rapidly changing retail sales environment in Mainland China, the Group elected to cease all retail operations in Mainland China in December 2018. Despite of this, the Group performed encouragingly owing to strong brand recognition from Hong Kong consumers on the retail front. Revenue for continuing operations increased by 7.3% year-on-year to HK$783.4 million (2017: HK$729.8 million).

Gross profit for continuing operations rose by 4.8% to HK$476.3 million (2017: HK$454.6 million), due to robust performance by the Hong Kong retail operation. Gross profit margin for continuing operations however slipped modestly to 60.8% (2017: 62.3%), due to increases in raw material and packaging material costs, as well as rise in factory wages.

[1] *Continuing operations do not include the Group's retail business in the PRC ("Discontinued operation").*
[2] *One-off expenses pertaining to the relocation of the Group's production facilities from Guanlan and Dongguan, to Kaiping City, Guangdong Province ,and closure of retail stores in Guangzhou.*

Profit attributable to owners of the Company totalled HK$9.4 million (2017: HK$8.1 million), representing a year-on-year increase of 15.6%. The Group incurred certain one-off expenses in the second half year relating to the relocation of its production facilities from Guanlan and Dongguan, to Kaiping City, Guangdong Province, as well as the closure of all retail stores in Guangzhou, Mainland China. Excluding the aforementioned one-off expenses pertaining to the Kaiping plant and closure of retail stores in Guangzhou, profit attributable to owners of the Company would have been HK$28.4 million. The management trusts that the new Kaiping facilities will increase production capacity and lower production costs over the long term.

The Board has resolved to propose a final dividend and a special dividend of HK0.43 cent and HK0.36 cent per ordinary share, respectively, totalling HK0.79 cent per ordinary share (2017: totalling HK0.68 cent per ordinary share), and representing a dividend payout ratio of 0.55.

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, “Owing to more than 30 years of solid experience and strong brand recognition, Hung Fook Tong has been able to achieve encouraging business growth. In Hong Kong, we remained the largest herbal retailer based on retail network size, and just as impressively, for the sixteenth consecutive year, the Hung Fook Tong brand has continued to occupy top position in the Wellness Drink category in Hong Kong.”

Business Review

Hong Kong Retail

The Hong Kong retail business remained the largest revenue contributor to the Group, generating HK$557.9 million in 2018 (2017: HK$516.1 million), up 8.1%, and accounting for 71.2% of total revenue due to satisfactory same-store sales growth, which was driven by strong sales from the Joyous Series (自家喜慶系列), as well as a notable increase in coupon sales. Segment profit rose appreciably to HK$74.6 million, up 47.1% from HK$50.7 million in 2017, which was due to higher revenue and effective control of operating costs.

Nine new shops were opened in 2018, resulting in a total of 115 self-operated shops in Hong Kong as at 31 December 2018. The Group has 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 825,000.

To reach customers in an innovative and more engaging manner, the Group introduced 15 Smart Vendors, known as “HUNG+ (鴻家)” in 2018, which employ artificial intelligence that recognises facial features, and provide customers with 24/7 personalised services.

Wholesale

The wholesale segment contributed revenue of HK$225.5 million (2017: HK$213.6 million), representing a year-on-year increase of 5.6% due to new product launches and expansion of sales channels. However, segment profit declined to HK$4.4 million (2017: HK$6.5 million), owing to greater cost incurred from the purchase of packaging materials, appreciation of the Renminbi, and increased logistical costs to northern cities in Mainland China.

The Hong Kong wholesale operation contributed revenue of HK$136.6 million (2017: HK$132.4 million), up 3.2% in 2018 due to new product launches such as Sparkling Salted Mandarin Drink (咸柑桔氣泡飲) and Durian Coconut Drink (榴槤椰香甘露). By capturing 35.0% market share based on sales value in 2018, according to Nielsen, the Group has retained its top position in the Hong Kong Wellness Drink Category for the 16th consecutive year.

Expanding its footprint overseas, the Group strengthened its presence in FamilyMart stores in Taiwan by introducing more drink products to drive sales during the second half year.

In Mainland China, wholesale revenue rose encouragingly by 9.5% to HK$88.9 million (2017: HK$81.2 million) due to the expansion of general trade sales network in Southern China, greater sales from Northern China, and the launch of several new products. As at 31 December 2018, the Group has an extensive distribution network, comprising 75 distributors covering 18 provinces and 48 cities; among which Guangzhou continues to be the largest revenue contributor.

Discontinued Operation

The Group elected to cease all retail operations in Mainland China in December 2018 in the best interest of the Company and its shareholders. Consequently, the business contributed revenue of HK$7.7 million (2017: HK$12.1 million), and recorded a segment loss of HK$4.4 million (2017: loss of HK$2.2 million) mainly due to one-off expenses of approximately HK$1.6 million relating to the closure of 15 self-operated retail stores in Guangzhou.

Prospects

Looking ahead, consumer sentiment in Hong Kong and Mainland China is expected to become increasingly cautious in the coming year. However, the Group will continue to strengthen its leadership in the Hong Kong retail market while at the same time reinforce its wholesale business in Mainland China. With the new Kaiping facilities commencing full production probably in the second quarter of 2019, the management trusts that the Group will benefit from lower production costs and increased production capacity in the coming years.

Hong Kong Retail

Observing a prudent expansion strategy, the Group targets to open between six and eight new shops in 2019. Already, six sites have been secured, including one shop which has opened since the beginning of 2019. At the same time, around eight "HUNG+" machines will be placed, with one machine already in operation at a commercial building. HUNG+ machines represent a cost effective option to retail network expansion for the Group.

Furthermore, embracing the new era of Smart Retailing, the Group has opened the first smart concept shop (智能概念店) in Hong Kong at the beginning of 2019. The concept shop is located in Kowloon Tong, and is equipped with self-checkout kiosks and e-payment options, while a facial recognition payment system is in the pipeline. The Group will closely monitor the store, and will evaluate the viability of rolling out several more smart concept shops in the coming year.

Wholesale

In Hong Kong, the Group will introduce new herbal or fruity drink products featuring new packaging and explore more sales opportunities with food and beverage outlets, including hotpot buffet restaurants and bakeries.

Across the border, the Group remains cautious about the fast changing and competitive nature of the Mainland China beverage market. To drive sales, the Group will direct greater attention to tapping second-tier cities by extending sales channels. Furthermore, the Group will launch more new products, as well as consider distributing imported beverage products. On the online front, not only will the Group partner with B2C e-retailers, but also leading B2B online platforms to achieve better coverage.

Dr. Ricky Szeto, General Manager and Executive Director of Hung Fook Tong, concluded, "With strong brand equity, a wide spectrum of appealing products and the ability to innovate, we remain optimistic about the Group's ability to maintain leadership in the Hong Kong retail market and cement its position in Mainland China."

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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 115 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.
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