



## Hung Fook Tong Announces 2016 Annual Results

***Maintains Leadership in Hong Kong Retail and Wholesale Markets  
Continues to Explore New Business Avenues and Seek Innovations***

### Financial Highlights

(HK\$'000)	For the year ended 31 December		
	2016	2015	Change
Revenue	<b>715,207</b>	723,578	-1.2%
Gross profit	<b>440,931</b>	438,927	+0.5%
Gross profit margin	<b>61.7%</b>	60.7%	+1.0 ppt
Profit attributable to owners of the Company	<b>8,961</b>	8,707	+2.9%
Basic earnings per share (HK cent)	<b>1.37</b>	1.33	+3.0%
Final and special dividend per ordinary share (HK cent)	<b>0.76</b>	0.76	-

(Hong Kong, 28 March 2017) – **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 2016 (“2016”).

Despite the volatile economic conditions and weak consumption sentiment, the Group’s performance remained stable and achieved continuous retail business expansion, resulting in revenue of HK\$715.2 million (2015: HK\$723.6 million). Gross profit rose modestly to HK\$440.9 million (2015: HK\$438.9 million), while gross profit margin increased to 61.7% (2015: 60.7%), mainly attributable to enhanced procurement procedures and effective cost control measures. Profit attributable to owners of the Company amounted to HK\$9.0 million (2015: HK\$8.7 million), which included a one-off gain of HK\$8.2 million from the disposal of an investment property. Excluding the one-off gain, there was a decline in the Group’s recurring profit, mainly due to a decrease in revenue from the wholesale operation.

The Group remains in a healthy financial position, with HK\$131.2 million in cash and cash equivalents as at 31 December 2016, and maintains strong cash flows with net cash generated from operating activities. The Board has resolved to recommend a final dividend and a special dividend of HK0.41 cent and HK0.35 cent per ordinary share, respectively (totalling HK0.76 cent per ordinary share), representing a dividend payout ratio of 0.55.

**Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong**, said, “Hung Fook Tong has been able to stand firm despite the turbulent environment owing to 30 years of solid experience and strong brand recognition. By no means standing still, we have continued to bolster our competitiveness in the Hong Kong retail market, where we have traditionally performed well and remained the largest industry player. At the same time, we have explored new business avenues and fostered innovation.”

## **Business Review**

### **Retail**

The retail segment generated revenue of HK\$518.4 million (2015: HK\$491.8 million), representing an increase of 5.4% when compared with 2015. Segment profit climbed 18.0% to HK\$59.5 million (2015: HK\$50.5 million), owing to further expansion and improvements made in the local retail business.

The Hong Kong retail business recorded revenue of HK\$504.0 million (2015: HK\$475.7 million), up 6.0%, thereby remaining the largest revenue contributor of the Group – accounting for 70.5% of total revenue. The increase was due largely to favourable same-store sales growth. Segment profit was up 5.5% to HK\$63.4 million, mainly attributable to increased sales coupled with improved margin.

In Hong Kong, nine new shops were opened largely in shopping malls and MTR stations (including the new Wong Chuk Hang Station and Ocean Park Station), raising the total number of self-operated shops to 116 as at 31 December 2016 - remaining the largest herbal retailer in Hong Kong based on retail network size. Moreover, JIKA CLUB membership has risen to 637,000.

Revenue from the Mainland China retail business declined by 10.5% to HK\$14.5 million (2015: HK\$16.2 million), as the Group closed underperforming shops in Shanghai during the first half of 2015. The Group operated 19 retail shops in Guangzhou as at 31 December 2016. Segment loss has been significantly narrowed from HK\$9.6 million in 2015 to HK\$3.8 million in 2016, the former amount reflecting one-off expenses incurred in 2015 resulting from the termination of its Shanghai partnership.

### **Wholesale**

The wholesale segment contributed revenue of HK\$196.8 million (2015: HK\$231.8 million), down 15.1% as fierce competition and weak retail momentum impacted on both the Hong Kong and Mainland China markets. Nevertheless, the Group has maintained its No. 1 position in the Wellness Drink Category for the 14th consecutive year according to Nielsen, capturing 40.6% of the market based on sales value. Such an achievement was supported in part by the launch of more new products in both markets to address fast changing market trends.

As a result of increased advertising and promotion expenses as well as listing fees (上架費用) to third-party retailers related to new product launches, a segment loss of HK\$19.9 million (2015: profit of HK\$6.0 million) was recorded.

In Mainland China, the Group has an extensive distribution network covering 17 provinces and 50 cities, and partners with 79 distributors as at 31 December 2016. Guangzhou remains the biggest revenue contributor, a city where the Group has secured a number of large-scale supermarkets and convenience stores as key accounts.

### **Prospects**

Looking ahead, consumption sentiment is expected to remain lacklustre. The Group will therefore adopt a cautious approach towards navigating through both Hong Kong and Mainland China markets. Apart from employing cost control measures, the Group will also introduce new initiatives, pursue same-store sales growth and enhance its online shopping platform “Hung Fook Tong Online”.

### **Retail**

To maintain its leading position in Hong Kong while observing a prudent expansion strategy, the Group plans to open six to eight shops in the coming year, having already opened two shops in March 2017, specifically, at Central Station and Lam Tin Station, as well as secured another location in Tuen Mun.

In line with the Group’s commitment to promoting health and wellness among city dwellers, the Group will also expand its products. One of the highlights is a new type of functional specialty tea called *Tea Leaves for Regulating Intestinal Movements* (通茶). These tea leaves are highly rich in natural probiotics, hence are ideal for relaxing the bowels and improving the intestinal health of urbanites. In view of the favourable response received following its launch in early 2017, the Group will promote the product more aggressively and launch associated products such as tea bags that leverage its unique natural health benefits.

Another exciting project that has come to fruition is the Hung Fook Tong food truck (鴻福堂美食車), which took to the road in February 2017. It will be operating in eight designated tourist attractions across the city during the two-year pilot period, allowing the Group to promote its healthy products to travellers as well as to locals. Though this initiative is expected to contribute modest revenue to the Group, it is an ideal opportunity for promoting its brand, values and products to the masses.

In Mainland China, the Group targets to open two new shops in 2017. Already, one shop has been opened in Guangzhou IFC shopping centre in January 2017.

## Wholesale

In Hong Kong, the Group will aim to secure new distributors and increase distribution to food and beverage outlets such as restaurants. Across the border, the Group remains cautious about the Mainland China beverage market. To drive sales, the Group will seek to further penetrate existing markets, strengthen cooperation with key accounts and expand sales channels to such venues as cinemas, tourist spots and schools. Furthermore, the Group will continue to partner with popular e-retailers such as Yihaodian (1 號店), Jingdong (JD.com) (京東) and sfbest.com (順豐優選), thus seize both conventional and e-commerce opportunities.

**Mr. Kenneth Kwan, Managing Director and Executive Director of Hung Fook Tong**, concluded, “With three decades in the industry, we are well capable of protecting our interests while observing our development roadmap to make further progress. As a well-recognised local brand, we will continue to drive innovation in the industry, and will do so while consolidating our position as a trendsetter in both the Chinese herbal industry and the food and beverage sector.”

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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 more than 130 retail shops primarily in Hong Kong and also in Mainland China. In terms of the number of retail shops, Hung Fook Tong is now the top retailer of Chinese herbal products in Hong Kong. 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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