



Hung Fook Tong Announces 2017 Interim Results

Net Profit Doubles with a Turnaround in Wholesale Business

Financial Highlights

(HK\$'000)	For the six months ended 30 June		
	2017	2016	Change
Revenue	355,815	347,933	+ 2.3%
Gross profit	222,952	216,430	+ 3.0%
Gross profit margin	62.7%	62.2%	+ 0.5 ppt
Profit attributable to owners of the Company	3,040	1,420	+ 114.1%
Basic earnings per share (HK cent)	0.46	0.22	+109.1%

(Hong Kong, 29 August 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 unaudited consolidated interim results for the six months ended 30 June 2017 (“1H2017”).

During 1H2017, the Group recorded revenue of HK\$355.8 million, representing a year-on-year growth of 2.3% compared with the six months ended 30 June 2016 (“1H2016”: HK\$347.9 million). Gross profit increased by 3.0% to HK\$223.0 million (1H2016: HK\$216.4 million), while gross profit margin rose modestly to 62.7% (1H2016: 62.2%) owing to enhanced procurement procedures and effective cost control measures. As a result, profit attributable to owners of the Company increased to HK\$3.0 million (1H2016: HK\$1.4 million), with a turnaround achieved in the wholesale segment.

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, “Owing to Hung Fook Tong’s strong brand recognition in Hong Kong, we were able to sustain our leading position as the largest herbal retailer in Hong Kong and achieve a turnaround in the wholesale segment under the still challenging environment. We never ceased to raise awareness and the stature of our brand through a series of innovative initiatives.”

Business Review

Retail

The retail segment recorded revenue of HK\$260.8 million (1H2016: HK\$258.9 million) with segment profit amounting to HK\$26.2 million (1H2016: HK\$31.9 million) due to the higher operating costs of retail shops.

As a result of further expansion of the local retail network, revenue from the Hong Kong retail business amounted to HK\$254.8 million (1H2016: HK\$251.9 million), up 1.2%, and accounted for 71.6% of total revenue. Segmental profit of HK\$27.5 million was recorded (1H2016: HK\$34.6 million), owing to the rise in labour cost and an increase in rent resulting from a greater number of shops as well as renewal of leasing contracts.

Having opened two new shops in the Central and Lam Tin MTR stations during the first half year, the Group had a total of 117 self-operated shops in Hong Kong as at 30 June 2017. Besides operating the largest herbal retail network in Hong Kong, the Group also has a diverse product portfolio with over 40 new products introduced during 1H2017, such as Organic Chicken Essence (有機滴雞精) and larger-size containers of Home-Made Stewed Pork Trotter and Ginger in Sweet Vinegar (自家豬腳薑醋).

In February 2017, the Group officially launched its food truck in Hong Kong, which serves as a powerful tool for reinforcing its image as a wholesome local brand and trendsetter. Moreover, JIKA CLUB membership grew to over 690,000 as at 30 June 2017.

Revenue from the Mainland China retail business was HK\$6.0 million (1H2016: HK\$7.0 million), as the Group further closed underperforming shops to optimise resources in order to strengthen its exposure in Guangdong where Hung Fook Tong has stronger brand recognition. The Group operated 17 retail shops in Guangzhou as at 30 June 2017 with one new shop opened in Guangzhou IFC shopping centre in January 2017. In rationalising operations towards achieving the aforementioned objectives, segment loss has narrowed to HK\$1.3 million (1H2016: loss of HK\$2.7 million).

Wholesale

Revenue from the wholesale segment rose 6.6% to HK\$95.0 million (1H2016: HK\$89.0 million), owing to improving conditions in both the Hong Kong and Mainland China markets. Profit achieved a turnaround, climbing to HK\$3.3 million (1H2016: a loss of HK\$8.0 million), mainly attributable to effective cost controls and lower advertising and promotion expenses as well as less listing fees (上架費) paid to third-party retailers.

The Hong Kong wholesale business reported revenue of HK\$57.9 million during 1H2017 (1H2016: HK\$53.0 million), a growth of 9.3%. The upturn was driven by closer cooperation with key accounts as well as the better performance of a key distributor. Significant effort was placed on securing more retail outlets, including bakery shops and Asian supermarkets.

Overseas, significant progress was also duly achieved in Taiwan where the Group's Iced Lemon Tea Drink (凍檸茶) and Common Selfheal Fruit-spike Drink (夏枯草) became available from one of the largest convenience store chain operators with more than 3,000 outlets in Taiwan.

In Mainland China, the Group managed to achieve income growth of 2.8% to HK\$37.1 million (1H2016: HK\$36.0 million). Such growth was primarily the result of imposing more stringent control over rebates and discounts granted to certain accounts, as well as the continuously improving markets of Guangzhou and Beijing. The Group had an extensive distribution network covering 18 provinces and 53 cities, and partners with 73 distributors as at 30 June 2017.

Production Facilities

With plans to construct a new production facility in Kaiping City, Guangdong, the Group entered into construction contracts in March and July 2017. The aggregate consideration of the construction contracts is RMB41.8 million (approximately HK\$47.4 million), which will be financed primarily by internal resources of the Group, and/or through bank borrowings. Construction of the plant is expected to be completed by April 2018. The new plant will enable the Group to support the rising demand for its products through highly automated and cost effective production. This in turn will translate into lower production cost in the long run.

Prospects

Looking ahead, the Hong Kong and Mainland China retail markets are beginning to stabilise, with recovery expected on the horizon. The Group will remain cautious and strive to maintain leadership in the Hong Kong retail market while carefully navigating through the Mainland China market. Apart from the brick-and-mortar business, the Group will further enhance its online shopping platform "Hung Fook Tong Online" by introducing more customised products and services through the platform.

Retail

The Group will employ a prudent expansion strategy to maintain its leading position in Hong Kong. Two more retail shops are planned to be opened in a shopping mall in Tuen Mun and at the Kennedy Town MTR station respectively in the second half of 2017 ("2H2017"). The Group will also seek to drive same-store sales growth with focus placed on promoting the Joyous Series (自家喜慶系列), particularly Organic Chicken Essence. And it is worth noting that the Group introduced a payment function via its mobile application in July 2017, facilitating electronic payment and the use of electronic coupons which will help enhance operational efficiency and reduce costs in the long run.

Wholesale

In Hong Kong, the Group has recruited local celebrity Mr. Bob Cheung (張彥博) to be one of the brand ambassadors and he will appear in a series of new campaigns. The Group will also develop exclusive products with different key accounts so as to capture opportunities during the summer period, which is the traditional peak season.

With the growing popularity of herbal drinks, sports drinks and ready-to-drink teas in Mainland China, the Group will encourage sales of associated products. It will seek to deepen its market penetrations and extend its product coverage while also strengthen cooperation with key accounts. Furthermore, the Group will further leverage online retailers and will include Miss Fresh (每日優鮮) and a greater presence in Tmall (天貓) starting in 2H2017.

Mr. Kenneth Kwan, Managing Director and Executive Director of Hung Fook Tong, concluded, “With a solid foundation built from three decades worth of industry experience and an iconic brand synonymous with quality, Hung Fook Tong will seek to promulgate the ‘3H’ concept of *Health, Herbal* and *Home* through the introduction of more innovative products. They will include more low-sugar and low-sodium options that capture opportunities from the health-conscious consumer segment. With these efforts, we are confident in maintaining our leading market position in Hong Kong and achieving a turnaround 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 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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