



Hung Fook Tong Announces 2017 Annual Results

***Achieves Turnaround in Wholesale Business
Retains Leading Position in the Hong Kong Retail Market***

Financial Highlights

(HK\$'000)	For the year ended 31 December		
	2017	2016	Change
Revenue	741,859	715,207	+3.7%
Gross profit	462,981	440,931	+5.0%
Gross profit margin	62.4%	61.7%	+0.7 ppt
Profit attributable to owners of the Company			
<i>As reported</i>	8,106	8,961	-9.5%
<i>Excluding the one-off gain from the disposal of an investment property in 2016</i>	8,106	734	+1004.4%
Basic earnings per share, as reported (HK cent)	1.24	1.37	-9.5%
Final and special dividend per ordinary share (HK cent)	0.68	0.76	-10.5%

(Hong Kong, 27 March 2018) – **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 2017 (“2017”).

Over the past year, the Hong Kong and Mainland China retail markets experienced a modest recovery, though the latter remained challenging. Owing to strong brand recognition, the Group was able to report a year-on-year increase in total revenue of 3.7% to HK\$741.9 million for 2017 (2016: HK\$715.2 million). During the same period, gross profit rose by 5.0% to HK\$463.0 million (2016: HK\$440.9 million) on the back of the solid performance of the wholesale operation. Gross profit margin rose to 62.4% (2016: 61.7%) due to effective cost controls. Net profit declined to HK\$8.1 million compared with 2016 (2016: HK\$9.0 million) due to a one-off gain of HK\$8.2 million from the disposal of an investment property that the Group benefited from in 2016. If not for the one-off gain, the net profit for 2017 would have risen year-on-year by HK\$7.4 million. The upturn can largely be attributed to an improvement in the wholesale segment.

The Group is in a healthy financial position with HK\$113.6 million in cash and cash equivalents, and continues to enjoy strong cash flows with healthy net cash generated from operating activities. The Board has resolved to propose a final dividend and a special dividend of HK0.37 cent and HK0.31 cent per ordinary share, respectively (totalling HK0.68 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, “Given our well honed operations and highly recognised brand with over three decades of experience in the industry along with improving consumption sentiment, such advantages served well for the ongoing development of the Group during the year. In Hong Kong, we further penetrated the MTR rail lines, reinforcing our position as the largest herbal retailer in Hong Kong. A particularly encouraging development has been the turnaround of our wholesale business as we achieved improvement on both sides of the border.”

Business Review

Retail

Even though revenue from the retail segment achieved a modest year-on-year increase of 1.9% to HK\$528.2 million (2016: HK\$518.4 million), profit slipped by 18.5% to HK\$48.5 million (2016: HK\$59.5 million), due mainly to the decline in profit from the Hong Kong retail operation as a consequence of the increases in raw material, staff and rental costs.

The Hong Kong retail operation continued to be the largest revenue contributor of the Group, generating HK\$516.1 million (2016: HK\$504.0 million) in revenue for the financial year presenting a year-on-year increase of 2.4% and accounting for 69.6% of total revenue. The increase was mainly attributed to contributions made by new shops opened during the year and partly as the result of additional contributions from the Hung Fook Tong Food Truck. Segment profit fell by 19.9% to HK\$50.7 million (2016: HK\$63.4 million) due to the rise in raw material, staff and rental costs.

In Hong Kong, four new shops were opened during 2017, resulting in a total of 115 self-operated shops in Hong Kong as at 31 December 2017 - remaining the largest herbal retailer in Hong Kong based on retail network size. Moreover, the number of JIKA CLUB members has reached 730,000.

Wholesale

The wholesale segment contributed revenue of HK\$213.6 million (2016: HK\$196.8 million), representing a year-on-year increase of 8.6%. Profit also climbed to HK\$6.5 million versus a loss of HK\$19.9 million last year. The turnaround was mainly attributable to less sales discounts/rebates and listing fees (上架費) paid to third-party retailers, as well as more efficient investments in advertising and promotion made by the Group.

The Hong Kong wholesale business generated revenue of HK\$132.4 million (2016: HK\$125.4 million) during the financial year, representing a year-on-year rise of 5.6%. By capturing 37.3% of the Wellness Drink market based on sales value in 2017, according to Nielsen, the Group has retained its top position in the Hong Kong Wellness Drink Category for the 15th consecutive year.

Expanding its footprint overseas, the Group was able to tap FamilyMart (全家便利商店), one of the largest convenience store operators on the island with over 3,000 outlets, to distribute its Iced Lemon Tea Drink (凍檸茶) and Common Selfheal Fruit-spike Drink (夏枯草飲品), resulting in satisfactory contributions.

In Mainland China, wholesale revenue rose notably by 13.8% to HK\$81.2 million (2016: HK\$71.3 million) partly due to less discounts and rebates granted to certain customers. The Group has an extensive distribution network covering 18 provinces and 53 cities, among which Guangzhou remains the largest revenue contributor. The Group also has a total of 73 distributors, having secured three more key accounts in Shanghai and Chengdu.

At the same time, construction of new production plant located in Kaiping City, Guangdong Province is expected to be completed by the end of 2018 or early 2019, to be followed by trial production. It will provide additional production capacity with high level of automation, thus translating into lower production cost in the long term.

Prospects

Looking ahead, the Hong Kong and Mainland China retail markets are expected to continue recovering in the near future. However, the Group will take a cautious approach towards maintaining the Group's leadership in the Hong Kong retail market, while at the same time evaluate its development in Mainland China. As it continues its efforts towards managing various expenditures, the Group will also expedite the delivery of omnichannel experiences to customers by optimising Hung Fook Tong Online.

Retail

Observing a prudent expansion strategy, the Group plans to open five to six new shops in 2018, having already opened three shops and secured two locations since the beginning of 2018. Among the new shops include one to two shops that abide by the Group's new brand concept, which will offer larger spaces where customers can fully enjoy its made-to-order products with many green and healthy options.

To drive same-store sales growth, energies will be placed on developing products with re-energising properties, such as the Group's Organic Chicken Essence products (有機滴雞精) that are suitable not only for those recovering from illness, but also individuals seeking to build up their immune system. A

key area of attention will be the Joyous Series (自家喜慶系列), which will introduce more new products that are ideal for postnatal (坐月) mothers.

Furthermore, the Group will strengthen engagement with customers so as to best address their needs. Besides reaching customers via its own mobile application, the Group will be placing eight to ten Smart Vendors named “HUNG+” at commercial buildings and various shopping malls. The machines will serve as additional sales points complementary to its retail shops, and will possess artificial intelligence to perform simple diagnostics and make health recommendations for customers, subsequently recommending products most appropriate for their needs. These machines thereby enable the Group to enhance its exposure beyond shops and provide 24/7 personalised service.

Wholesale

In Hong Kong, the Group will introduce more products under the “Sparkling Herbal Series” (有氣草本系列) and explore more sales opportunities with food and beverage peers, including restaurants and bakery shops.

Across the border, the Group remains cautious about the fast-changing Mainland China beverage market. To drive sales, the Group will introduce products that capitalise on recent trends, such as the popularity of plant-derived beverages and introduced products at different regions that suit the local needs. Furthermore, the Group will continue to strengthen ties with online retailers such as Yihaodian (1 號店), Jingdong (京東) and sfbest.com (順豐優選).

Mr. Kenneth Kwan, Managing Director and Executive Director of Hung Fook Tong, concluded, “As a market leader with a solid business foundation and strong brand image, we are committed to protecting and building on its legacy through careful observation backed by innovation. Having made clear strides in controlling costs in 2017, we will seek to take even bigger steps in the coming year and continue to maintain our leadership in both 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 around 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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