[For immediate release]

Hung Fook Tong Announces 2018 Interim Results

Revenue Up 10.1% with Gross Profit Margin at 60.6%
Net Profit Up 39.7% Year-on-Year

Financial Highlights

(HK$'000)	**For the six months ended 30 June**		
	2018	**2017**	**Change**
Revenue	**391,888**	355,815	+ 10.1%
Gross profit	**237,644**	222,952	+ 6.6%
Gross profit margin	**60.6%**	62.7%	- 2.1 ppt
Profit attributable to owners of the Company	**4,248**	3,040	+ 39.7%
Basic earnings per share (HK cent)	**0.65**	0.46	+ 41.3%

(Hong Kong, 28 August 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 unaudited condensed consolidated interim results for the six months ended 30 June 2018 ("1H2018").

During 1H2018, the Group recorded revenue of HK$391.9 million, representing a year-on-year growth of 10.1% compared with the six months ended 30 June 2017("1H2017": HK$355.8 million). Gross profit rose by 6.6% to HK$237.6 million (1H2017: HK$223.0 million) on the back of strong performance by the Hong Kong retail operation. Gross profit margin was down, however, declining by 2.1 percentage points to 60.6% (1H2017: 62.7%), due to the increase in raw material and packaging material costs, rise in factory wages, appreciation of the Renminbi ("RMB") when compared with 1H2017, and deeper rebates offered to customers of its wholesale business. Despite the rise in shop rent and wages, and fixed costs associated with the Group's Dongguan plant (which has ceased production since 2018), the Group managed to record an increase in profit attributable to owners of the Company to HK$4.2 million (1H2017: HK$3.0 million).

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, "With Hung Fook Tong's strong brand recognition and solid experience over the last three decades, the Group has retained our position as the largest herbal retailer in Hong Kong. We have continued to enhance business development with innovation and therefore achieved stable business growth in the competitive Hong Kong retail market."

<u>Business Review</u>

Retail

The retail segment recorded revenue of HK$286.9 million (1H2017: HK$260.8 million) in 1H2018, representing a year-on-year increase of 10.0%. Segment profit amounted to HK$34.8 million (1H2017: HK$26.2 million), or a year-on-year rise of 32.8% owing to the strong performance of the Hong Kong operation.

The Hong Kong retail business continued to be the largest revenue contributor of the Group, generating HK$282.3 million (1H2017: HK$254.8 million), up 10.8%, and accounted for 72.0% of total revenue. The rise in revenue can be attributed to satisfactory same-store sales growth, which was driven by encouraging demand for new products such as Organic Chicken Essence (有機滴雞精), an increase in the price of certain products in 2017 and improved incentive programmes. Moreover, closure of underperforming shops and satisfactory contributions from new shops further contributed to top-line growth. A segment profit of HK$36.8 million has been recorded, up 34.0% from HK$27.5 million for the corresponding period last year due to higher gross profit and effective control of operating costs.

The Group has added six new shops in Hong Kong during 1H2018, located mainly along the extended MTR Island Line and shopping centres. The Group therefore remains the largest herbal retailer in Hong Kong based on retail network size, totalling 116 self-operated shops as at 30 June 2018.

Wholesale

The wholesale operation generated HK$105.0 million (1H2017: HK$95.0 million) in revenue during 1H2018, up 10.6%. The increase can be attributed to the launch of new products in Hong Kong and Mainland China, as well as closer cooperation with key accounts and distributors in Mainland China. However, a segment loss of HK$2.1 million (1H2017: profit of HK$3.3 million) was recorded mainly due to greater cost of packaging materials, higher staff costs, appreciation of the RMB, increased advertising and promotion expenses and fixed costs associated with the Dongguan plant.

The Hong Kong wholesale business was able to increase revenue by 7.7% year-on-year to HK$62.4 million (1H2017: HK$57.9 million), largely due to the introduction of several new products such as Sparkling Salted Mandarin Drink (咸柑桔氣泡飲). Other contributing factors included expanded sales channels, and greater brand exposure via product placement in the TVB programme “Cooking Beauties (美女廚房)”.

In Mainland China, wholesale revenue totalled HK$42.7 million in 1H2018 (1H2017: HK$37.1 million), up 15.1% year-on-year. The upsurge was the result of closer ties with key account customers in Southern China and Western China, combined with the launch of new products. As at 30 June 2018, the Group’s extensive distribution network covers 18 provinces and 53 cities in Mainland China, among which Guangzhou remains the largest revenue contributor. As at 30 June 2018, the Group has 82 distributors.

Production Facilities

Construction of the new production plant in Kaiping City, Guangdong Province is expected to be completed by the end of 2018, following which trial production will commence in early 2019. It will play a crucial role in supporting growing demand for the Group's bottled drinks by providing additional production capacity supported with a high level of automation, which will lower production cost over the long term.

Prospects

Looking ahead, rising operating costs will pose a major challenge to the Group. Specifically, certain one-off expenses will be incurred from the relocation of the production facilities to Kaiping City. Even though the management expects the Group's operating results will be significantly impacted in the second half of 2018 ("2H2018"), it trusts that the new Kaiping production facilities will ultimately lower production costs over the long term.

Retail

Despite growing anxiety over economy, the management remains confident in the Group's ability to maintain its leadership in the Hong Kong retail market. The Group plans to open three new shops in the second half year. One shop has opened in August, and two locations have been secured. These three shops are in shopping malls found on Hong Kong Island or in a hospital.

To drive same-store sales growth, the Group has recruited Ms Jade Kwan (關心妍) in July 2018, to serve as brand ambassador of the Joyous Series (自家喜慶系列).

Helping customers enjoy the Group's products 24/7 will be the launch of more "HUNG+" (鴻家) Smart Vendors. With six "HUNG+" launched as at 30 June 2018, more than ten additional machines will be rolled out in 2H2018; four machines having already been installed in July and August. As HUNG+ possesses artificial intelligence, it will be able to perform simple diagnostics, make health recommendations, and suggest products that are most appropriate for the user.

Wholesale

In Hong Kong, the Group will seek to push sales of its Sparkling Salted Mandarin Drink across more of its wholesale channels to call for greater product exposure. It will also launch more flavours of drinks in 250ml size in order to tap a larger number of food and beverage outlets, especially hotpot buffet and Japanese buffet restaurants.

With regard to overseas sales, the Group will further strengthen its presence in existing markets, especially Taiwan where it will launch new products including Salted Lime Drink (咸青檸) via FamilyMart stores in 2H2018. The management will also consider the feasibility of launching the Sparkling Drink Series in Taiwan and expanding the Group's products to other local supermarkets as well as via e-commerce platforms.

In Mainland China, new products such as Sparkling Salted Mandarin Drink and Deluxe Coconut Durian Drink (榴槤椰香金露) will be introduced to expand the product portfolio. Given the growing health consciousness of the general public, it aims to introduce more low-sugar or no-sugar options. The Group will also intensify its marketing efforts via online retailers such as launching more promotional offers during the "Double 11" and "Double 12" shopping festivals, so as to mitigate the impact of online sales on traditional sales channels.

Mr. Kenneth Kwan, Managing Director and Executive Director of Hung Fook Tong, concluded, "Given our solid foundation, strong brand value and effective business segmentation, the Group is fully capable of overcoming uncertainties and challenges that may emerge during the rest of 2018. The management will continue to strengthen the Group's leadership in the Hong Kong retail market while at the same time take a prudent approach as it protects the Group's interests 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. In terms of the number of retail shops, Hung Fook Tong is the top retailer of Chinese herbal products in Hong Kong with around 116 self-operated 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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