



Hung Fook Tong Announces 2019 Annual Results

***Gross Profit for Continuing Operations Up 2.6% with Gross Profit Margin at 63.0%
Retains Leading Position in Hong Kong Retail Market***

Financial Highlights

(HK\$'000)	For the year ended 31 December		
	2019	2018	Change
Revenue (for continuing operations ¹)	775,789	783,383	-1.0%
Gross profit (for continuing operations ¹)	488,705	476,347	+2.6%
Gross profit margin (for continuing operations ¹)	63.0%	60.8%	+2.2ppt
Profit attributable to owners of the Company	10,012	9,374	+6.8%
Earnings per share for profit attributable to owners of the Company (HK cent)	1.53	1.43	+7.0%
Final and special dividends per ordinary share (HK cent)	0.84	0.79	+6.3%

(Hong Kong, 25 March 2020) – **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 2019 (“2019”).

During the financial year, both the global and Hong Kong markets faced difficult conditions owing to the protracted China-US trade negotiations. In addition, social instability further weighed on Hong Kong, which subsequently experienced an economic downturn in the second half year. In spite of the aforementioned challenges, the Group was able to record revenue growth from the Hong Kong retail business, which rose by 4.2% thanks to strong brand appeal among local consumers.

Yet, such increase was offset by a decline in Hong Kong and Mainland China wholesale business, thus the Group’s revenue for the continuing operations slightly decreased by 1.0% to HK\$775.8 million (2018: HK\$783.4 million). However, gross profit for the continuing operations climbed by 2.6% to HK\$488.7million (2018: HK\$476.3 million) owing to the stable performance of the Hong Kong retail operation, which was bolstered by the effective management of production costs. Correspondingly, gross profit margin for the continuing operations reached 63.0% (2018: 60.8%).

¹ Continuing operations do not include the Group’s retail business in the PRC (“Discontinued operation”).

As a result of higher segment profit from the Hong Kong retail business, the termination of retail operations in Mainland China, which was in a loss-making position, as well as less one-off expenses incurred due to the relocation of production facilities from Shenzhen City (Guanlan and Dongguan) and Suzhou City to Kaiping City compared with 2018, profit attributable to owners of the Company for 2019 increased by 6.8% to HK\$10.0 million (2018: HK\$9.4million).

The Board has resolved to propose a final dividend and a special dividend of HK0.46 cent and HK0.38 cent per ordinary share, respectively, totalling HK0.84 cent per ordinary share (2018: totalling HK0.79 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, “Thanks to our strong brand recognition and market presence over the past three decades, we are pleased that the Group is still able to achieve progress during these difficult times.”

Business Review

Hong Kong Retail

The Hong Kong retail business continued to be the largest revenue contributor of the Group during the financial year. The operation generated HK\$581.1 million (2018: HK\$557.9 million) in segment revenue – a year-on-year increase of 4.2%, and accounted for 74.9% of total revenue. The rise was due to satisfactory same-store sales growth, which was driven in part by strong sales from the Joyous Series (自家喜慶系列), as well as price adjustments and a notable increase in coupon sales and redemptions. Further adding to retail business growth was revenue from Handmade Bakery (嚙麥手作) that the Group acquired in April 2019, which operated two shops as at the end of the financial year. Segment profit rose to HK\$81.1 million (2018: HK\$74.6 million), up 8.7% year-on-year, attributed to higher revenue and gross profit margin, the latter resulting from the effective control of production costs.

Nine new shops were opened in 2019, resulting in a total of 115 self-operated shops in Hong Kong as at 31 December 2019. The Group has maintained its standing as the largest herbal retailer in Hong Kong based on retail network size. In view of a weakened retail market in the second half year, especially in the last quarter, the Group negotiated with a number of landlords, which resulted in modest adjustments in rent.

Moreover, the number of JIKA CLUB members has reached 924,000 and there was an increase in average spending per member despite generally weak retail sentiment.

Wholesale

The wholesale operation experienced a decline in revenue of 13.7% to HK\$194.7 million (2018: HK\$225.5 million), due to lower sales in both the Hong Kong and Mainland China markets. Segment loss amounted to HK\$4.9 million (2018: profit of HK\$4.4 million), which can be attributed to a decline in segment results from the Hong Kong wholesale operation – the product of lower revenue against higher selling and administration expenses. Loss from the Mainland China wholesale business enlarged due to the suspension of business ties with a number of the Group's key accounts arising from social activities in Hong Kong.

In **Hong Kong**, the wholesale business generated revenue of HK\$135.0 million (2018: HK\$136.6 million), which was down 1.2% year-on-year, due primarily to lower revenue from a couple of key accounts. Subsequent to July 2019, the orders from such accounts returned to normal levels. The Group has for the 17th consecutive year preserved its top position in the Hong Kong Wellness Drink Category, according to Nielsen, with 27.8% market share based on sales value and 37.8% market value based on sales volume (litre).

In **Mainland China**, the wholesale business contributed HK\$59.7 million (2018: HK\$88.9 million) in revenue, down 32.8% year-on-year. The decline was mainly due to the severing of business ties with the majority of key accounts owing to social activities in Hong Kong, though by the end of the year, certain drink products were still available at certain general stores and gas stations mainly in Southern China via distributors of the Group.

Expanding its footprint overseas, the Group introduced four flavours of drinks to convenience stores in Vietnam during the financial year.

Discontinued Operation

With the cessation of all retail operations in Mainland China in December 2018, no revenue or profit/loss was recorded from this segment in 2019 (2018: revenue of HK\$7.7 million and segment loss of HK\$4.4 million). The Group has subsequently been able to better allocate and focus its human, financial and operational resources on other operating segments.

Prospects

The Group expects a highly challenging year ahead for Hong Kong retailers due to the outbreak of the Coronavirus disease. It has affected the Group's Hong Kong retail segment and wholesale segment to some extent since early 2020. The Group will pay close attention to the development of the outbreak, perform further assessment of its impact and take relevant measures.

However, the management remains confident that with the indomitable spirit of customers, business partners, staff and general public, both the Group and society will weather these difficult times.

Hong Kong Retail

Despite the expected headwinds, the management remains committed to maintaining the Group's leadership in the Hong Kong retail market. Towards this objective, it will employ flexible network management, which includes the judicious opening of several new shops in 2020. Two shops already opened during the first quarter of 2020. Going further, the Group will seek to negotiate with landlords given the fact that rental rates have been softening, particularly in instances where lease renewals are approaching, thus keep such expenditures on a tight rein.

Online platforms and delivery service are expected to become even more popular as the public shift their shopping behaviour towards online amidst the outbreak of the Coronavirus disease. The Group will therefore allocate more resources on these channels. Since the opening of the first "Hung Fook Tong x Handmade Bakery" concept shop in December 2019, the Group has been seeking more expansion opportunities, including leveraging the trend towards light meal options complemented with soups and pastries.

Wholesale

In Hong Kong, the Group will offer customers an even greater array of snack and frozen food options. Mindful of the importance of increasing the Group's market exposure, the management will explore joint promotions as well as expand the Group's sales channels across the city.

Regarding the Mainland China market, the Group will in the coming half year seek to stabilise sales by leveraging its local distributors. At the same time, it will endeavour to resume business ties with certain key accounts, particularly with major convenience chain store operators in Guangzhou and Shanghai during the first phase of product launches. As regards the other markets, efforts will be made towards tapping new markets such as South Korea.

Dr. Ricky Szeto, General Manager and Executive Director of Hung Fook Tong, concluded, "Owing to our strong market presence and the ability to innovate by offering omnichannel experiences to our customers, we believe the Group possesses the essential underpinnings that will allow it to confidently face the difficult year ahead."

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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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