



Hung Fook Tong Announces 2020 Interim Results

Gross Profit Margin Rises to 64.4%

Profit attributable to owners of the Company Up 355.8% Year-on-Year

Declares a Special Dividend of HK0.90 cent per ordinary share

Financial Highlights

(HK\$'000)	For the six months ended 30 June		
	2020	2019	Change
Revenue	345,172	390,903	- 11.7%
Gross profit	222,433	242,687	-8.3%
Gross profit margin	64.4%	62.1%	+ 2.3 ppt
Profit attributable to owners of the Company	23,043	5,055	+ 355.8%
Earnings per share (HK cent)	3.51	0.77	+ 355.8%
Special dividend per ordinary share (HK cent)	0.90	Nil	N/A

(Hong Kong, 24 August 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 unaudited condensed consolidated interim results for the six months ended 30 June 2020 (“1H2020”).

During 1H2020, both the Hong Kong and Mainland China retail and wholesale markets were battered by the combination of the COVID-19 outbreak, China-United States trade frictions and global economic slowdown. The Group’s retail and wholesale performance was inevitably affected by such developments, as well as a decline in Mainland China wholesale revenue due to the severing of business ties with key accounts owing to social movements in Hong Kong. As a consequence, the Group’s revenue contracted by 11.7% to HK\$345.2 million (for the six months ended 30 June 2019 (“1H2019”): HK\$390.9 million).

Gross profit has expectedly declined, down by 8.3% to HK\$222.4 million (1H2019: HK\$242.7 million), due mainly to weaker top-line performance. However, benefitting from an improvement in the sales mix, continuous enhancement in supply chain management, and depreciation of the Renminbi (RMB) which led to a decline in production costs at the plant in Kaiping City, Guangdong, gross profit margin rose to 64.4% (1H2019: 62.1%).

Moreover, due to a decrease in selling and administrative expenses resulting from the implementation of cost saving measures covering rent and labour since late 2019 in response to the challenging Hong Kong retail environment brought by social movements; as well as the receipt of certain government grants and subsidies, profit attributable to owners of the Company has risen significantly by 355.8% to HK\$23.0 million (1H2019: HK\$5.1 million).

The Board has resolved to declare a special dividend in respect of the year ending 31 December 2020 of HK0.90 cent per ordinary share (1H2019: nil).

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, “Hung Fook Tong has experienced numerous economic cycles over the past three decades, and even though COVID-19 is an unprecedented event, the Group has demonstrated resilience attributed to our high quality products and strong brand equity.”

Business Review

Hong Kong Retail

The Hong Kong retail operation has remained the largest revenue contributor of the Group, generating HK\$276.9 million (1H2019: HK\$296.5 million) in revenue in 1H2020 – down by 6.6% year-on-year, and accounting for 80.2% of total revenue. The decline was largely due to social distancing measures implemented by the Hong Kong Government in the wake of COVID-19, which led to school closures, adoption of work-from-home arrangements by government departments and companies, and less contact among the general public, consequently resulting in lower customer traffic and fewer transactions. More favourably, revenue from JIKA CLUB (自家 CLUB) rose due to an increase in average transaction value per member, which partly offset the decrease in traffic. Despite the revenue drop, segmental profit climbed 30.7% to HK\$56.6 million (1H2019: HK\$43.3 million), which was attributed to the effective cost control of raw materials; concessions from certain landlords resulting in more affordable rental rates; more streamlined workforce; and receipt of government grants and subsidies for assisting the retail sector and food licence holders totalling HK\$9.6 million.

The Group has opened two new shops at MTR stations, resulting in a total of 115 self-operated shops in Hong Kong as at 30 June 2020 – and no shop closure related to the impact of the pandemic. The Group has thereby maintained its standing as the largest herbal retailer in Hong Kong based on retail network size. Moreover, the number of JIKA CLUB members has reached 970,000.

Recognising that online retailing and delivery services have become even more popular as “stay at home” and “working from home” have become the new normal in the wake of COVID-19, the Group capitalised on such developments by co-operating with foodpanda and Deliveroo food delivery platforms, to offer a convenient way for customers to enjoy Hung Fook Tong products at home or at the office.

Wholesale

The wholesale segment experienced a decline in revenue of 27.7% to HK\$68.2 million (1H2019: HK\$94.4 million), dragged down by weaker sales from the Mainland China market, even though top-line sales in Hong Kong increased modestly. The segment nonetheless recorded a profit of HK\$0.5 million (1H2019: loss of HK\$4.5 million), which can be mainly attributed to the surge in segmental results from the Hong Kong wholesale operation, resulting from higher revenue and higher gross profit as a result of RMB depreciation.

In **Hong Kong**, revenue from the wholesale business totalled HK\$60.7 million (1H2019: HK\$56.0 million), or an increase of 8.4% year-on-year. Aside from the lower base, as revenue from a couple of key accounts were lower in 1H2019, the local wholesale business recorded a significant increase in online sales which helped to partly offset the sales decline from key accounts and restaurants amid the epidemic. Furthermore, the new “Detox & Heat Relief Drink (清肺解毒飲)” was launched in response to COVID-19. Unique delicacies have also been added to the wholesale business portfolio, such as Almond Cookies with Milkfish Floss (虱目魚鬆杏仁餅) imported from Taiwan, and Korean Chicken Ginseng Soup (韓國人蔘雞湯).

In **Mainland China**, wholesale revenue has dropped by 80.4% to HK\$7.5 million (1H2019: HK\$38.4 million) as the majority of key accounts elected to sever business ties in the second half of last year due to social movements in Hong Kong. Yet, business ties with certain key accounts, particularly major convenience chain store operators in Southern China, have gradually been re-established. Consequently, in May and June of this year, certain fresh and long-shelf life bottled drinks have once again become available through a number of key accounts in Guangzhou, Dongguan, Shenzhen, etc., amounting to over 6,400 convenience stores in total. Furthermore, the Group's fresh and long-shelf life drinks have appeared on the shelves of grocery stores, schools, and gas stations via distributors operating mainly in Guangdong, Shanghai and Beijing.

With regard to **other markets**, the Group was able to tap the Netherlands and Brazil markets in 1H2020, as public awareness of the health benefits of herbal drinks increased amid the COVID-19 pandemic.

Prospects

The Group is fully aware that the pandemic is likely to persist in the second half year, and the retail and wholesale business environment will continue to present numerous challenges. Despite the uncertain outlook, the management is convinced that challenges and opportunities go hand in hand. Since COVID-19, consumers have gained greater appreciation for maintaining a healthy diet, which is an area that the Group holds particular expertise. To address their needs will include the Group's portfolio of pre-packaged food that are both convenient and hygienic. The Group will also seek to bolster its online presence and delivery services.

Still other opportunities to be explored will be cross brand collaborations. On the back of the Group and HKBN Group's announcement of a five-year Barter and Bundle strategic partnership, the Group is pleased to commence a long-term partnership with the established brand, Eu Yan Sang. The link-up, which will also involve the sharing of resources, holds the potential for mutual success in the areas of product development and customer building, and for securing leadership positions in the health and wellness industry for both parties.

Hong Kong Retail

The Group plans to open one new shop in the second half of 2020 at an MTR station. It will also look to negotiate further with landlords on rent concessions and lease renewals, having already made progress in 1H2020 when rental increases were generally minimised.

In view of present work from home and social distancing practices, the Group will further promote its wide variety of ready-to-eat food and soups, and enticing Home Made Dish Series (自家小菜系列). Furthermore, the Group plans to introduce Chinese health supplements, as it seeks to capitalise on a burgeoning market that is driven by demand from a health-conscious population. It will also launch a revamped "Hung Fook Tong Online" platform during the second half of this year.

Wholesale

On the Hong Kong wholesale front, the Group is set to launch more cross brand promotions and products in the remaining financial year. This will include an authentic Hong Kong Milk Tea (鴻福堂 x 檀島港式奶茶) resulting from a partnership with Honolulu Coffee Shop, that has entered the market subsequent to the reporting period, i.e. July. In addition, more specialty and seasonal food products from different markets, including South Korea, will be introduced.

As for Mainland China, with the epidemic under control and life gradually returning to normal, consumption sentiment is expected to improve, resulting in fresh opportunities. To remain competitive, the Group will work on strengthening business ties with key accounts to boost performance, while actively seeking to bring its products back to online platforms as well as promoting sales through online and social marketing activities.

Dr. Ricky Szeto, Chief Executive Officer and Executive Director of Hung Fook Tong, concluded, "With a solid foundation, strong brand profile and effective business segmentation, the management believes that Hung Fook Tong will be able to brave the difficulties ahead with all stakeholders while seizing new business opportunities."

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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 food and beverage enterprise with a modern wellness concept, offering a wide range of additive-free healthy food products for more than three decades. Currently, it has 115 self-operated 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.

Website: www.hungfooktong.com

Media Enquiries:

Hung Fook Tong Group Holdings Limited

Agnes Luo	Tel: 3651 2197	Email: agnesluo@hungfooktong.com.hk
Lillian Hui	Tel: 3651 2248	Email: lillianhui@hungfooktong.com.hk