



Hung Fook Tong Announces 2020 Annual Results

Gross Profit Margin Rises to 63.7%

Profit attributable to owners of the Company Up 524.6% Year-on-Year

Financial Highlights

| (HK\$'000) | For the year ended 31 December | | |
|---|--------------------------------|---------|---------|
| | 2020 | 2019 | Change |
| Revenue | 702,473 | 775,789 | -9.5% |
| Gross profit | 447,820 | 488,705 | -8.4% |
| Gross profit margin | 63.7% | 63.0% | +0.7ppt |
| Profit attributable to owners of the Company <i>As reported</i> | 62,530 | 10,012 | +524.6% |
| <i>Excluding one-off government grants and subsidies</i> | 16,984 | 10,012 | +69.6% |
| Earnings per share for profit attributable to owners of the Company (HK cent) | 9.53 | 1.53 | +522.9% |
| Total dividends per ordinary share (HK cent) | 2.86 | 0.84 | +240.5% |

(Hong Kong, 29 March 2021) – **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 2020 (“2020”).

During the financial year, the Group’s retail and wholesale performance was inevitably affected by the difficult conditions owing to the COVID-19 pandemic. Moreover, with regard to the wholesale operation, revenue declined primarily due to the severing of business ties with the majority of key accounts in Mainland China, the consequences of social activities in Hong Kong since the second half of 2019. As a result, the Group’s revenue contracted by 9.5% to HK\$702.5 million (2019: HK\$775.8 million). Gross profit decreased by 8.4% to HK\$447.8 million (2019: HK\$488.7 million), which was due mainly to the top-line decline. Despite of this, as well as the appreciation of the Renminbi in the second half of 2020, gross profit margin improved modestly to 63.7% (2019: 63.0%), which is a reflection of the improved sales mix and continuous enhancement in supply chain management.

Owing to cost savings derived from the re-engineering of the Group’s business processes since late 2019, particularly in Mainland China, as well as the receipt of government grants comprising subsidies to retail sector and food licence holders along with funds from the Employment Support Scheme (“ESS”), profit attributable to owners of the Company soared by 524.6% to HK\$62.5 million (2019:

HK\$10.0 million). Even if the one-off government grants and subsidies were excluded, the Group still recorded a surge in profit attributable to owners of the Company of 69.6% to HK\$17.0 million.

In view of the sound fundamentals of the Group, the Board has resolved to recommend a final dividend of HK1.96 cents per ordinary share (2019: a final dividend of HK0.46 cent per ordinary share and a special dividend of HK0.38 cent per ordinary share respectively). Including the special dividend of HK0.9 cent per ordinary share paid in September 2020, the total dividends for 2020 amounted to HK2.86 cents per ordinary share (2019: HK0.84 cent per ordinary share).

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, “Despite the stiff headwinds created by COVID-19, I am pleased by the Group’s admirable performance particularly in the retail segment. The outperformance can be attributed to the Group’s efforts in introducing more high-quality and healthy products that were able to allay public concerns over health and wellness; and the prompt adjustment in sales channels to online platforms and delivery services, leveraging its strong brand equity.”

Business Segment 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\$548.6 million (2019: HK\$581.1 million) in revenue, down 5.6%, and accounted for 78.1% of total revenue for the financial year. The decline was mainly attributed to social distancing and health measures imposed by the 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. Such measures resulted in a decline in footfall and same-store sales. Despite the revenue drop, segment profit climbed 35.4% to HK\$109.8 million (2019: HK\$81.1 million), owing to the effective cost control of raw materials, preferential rental concessions secured with landlords; streamlined workforce, and receipt of government grants and subsidies for the retail sector and food license holders totalling HK\$10.3 million; and subsidies from ESS.

While no shops were closed due to the impact of the pandemic, three new shops were opened in 2020, resulting in a total of 119 self-operated shops in Hong Kong as at 31 December 2020, which included two Handmade Bakery shops. The Group has maintained its standing as the largest herbal retailer in Hong Kong based on retail network size. Moreover, the number of JIKA CLUB (自家 CLUB) members has reached 1,020,000. The increase in average transaction value per JIKA CLUB member helped to partly offset the decrease in customer traffic.

As online retailing and delivery services have increased in popularity, the Group leveraged its early-

mover advantage and has allocated greater effort and resources to takeaway food services. In view of growing public concerns over health and hygiene due the pandemic, the Group has launched the new Detox & Heat Relief Soup (清肺解毒湯), and continued to expand the Joyous Series (自家喜慶系列) by rolling out the new Fish Essence (滴虱目魚精) so that customers are offered even more options for protecting their health. The Joyous Series has achieved satisfactory growth with the addition of the new product.

Wholesale

The wholesale segment experienced a drop in revenue of 21.0% to HK\$153.9 million (2019: HK\$194.7 million), dragged down by sales declines in both the Hong Kong and Mainland China markets, especially the latter. However, the segment achieved a turnaround, moving back to a profit-making position of HK\$8.1 million (2019: loss of HK\$4.9 million). This can be attributed to an increase in segment results from the Hong Kong wholesale operation, which is the result of a higher gross profit margin and lower selling expenses. Loss from the Mainland China wholesale business has narrowed as a consequence of the re-engineering of the Group's business processes.

In **Hong Kong**, the wholesale business generated revenue of HK\$132.1 million (2019: HK\$135.0 million), which was down 2.1% year-on-year, due to lower revenue from a number of convenience stores and grocery stores, as people tended to stay at home. COVID-19 has also caused a drop in revenue from restaurants and schools, though the significant increase in online sales has helped to partly offset such losses. The Group has tapped more online sales channels, including hksuning.com (蘇寧), Neigbuy.com (鄰住買), HOME+ and foodpanda mall, as well as smaller scale e-shops and online wholesale platforms.

In addition, the Group has introduced more imported food, including Almond Cookies with Milkfish Floss (虱目魚鬆杏仁餅) and Concentrated Chicken Essence (紅羽土雞滴雞精) from Taiwan; Korean Chicken Ginseng Soup (韓國人蔘雞湯) and Army Stew Hotpot Soup (韓國部隊鍋), all of which can be purchased via chain stores or online platforms. Launch of more cross brand promotions and products has been pursued as well, resulting in the introduction of the authentic Hong Kong Milk Tea (鴻福堂 x 檀島港式奶茶) with Honolulu Coffee Shop in July, among other fruitful outcomes.

In **Mainland China**, the wholesale business contributed HK\$21.8 million (2019: HK\$59.7 million) in revenue, down 63.5% 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 since the second half of 2019. Such relations have gradually been restored with certain key accounts, mainly in southern China. However, the resumption of business has been delayed and the scale of business made smaller due to lockdown measures relating to COVID-19. Still, a number of fresh or long-shelf life bottled drinks have become available once again in Guangzhou, Dongguan, Shenzhen, etc. via several key accounts, amounting to over 6,400 convenience stores.

To optimize its business model, the Group has re-engineered its business processes in Mainland China by shifting logistics and sales promotion duties to its distributors. This has enabled the Group to operate only one office, located in Guangzhou, which in turn has resulted in the successful saving of both operational and management costs, and therefore the segment loss has narrowed.

In respect of **other markets**, they too were expectedly impacted by the pandemic, specifically lockdown measures in countries such as the U.S., Australia and Malaysia, resulting in a notable decline in sales. Still, the Group has continued to explore new business opportunities in such markets as South Korea and Singapore where trial one-off promotions were initiated.

Prospects

In entering 2021, the global economy looks set to face still more challenges. Despite the uncertain outlook, the management is convinced that challenges coexist with opportunities. With growing concerns for a healthy diet among the general public, and further heightened in the wake of COVID-19, such desires will benefit the Group as it has long been a trusted purveyor of nutritious herbal products, including convenient and hygienic pre-packaged food. Moreover, with work from home and stay at home now a common practice, the Group will bolster its online shopping and delivery services still further so as to serve customers wherever they may be.

Hong Kong Retail

The Group will strive to maintain its market leadership, which will include reinforcing its physical presence by strengthening ties with landlords and seeking their support in terms of rental concessions, lease renewals, renovations and new store openings. In view of a softening rental market, the Group has plans for opening around eight to ten new shops in 2021, including those under the Handmade Bakery brand.

Certainly an exciting development scheduled for 2021 is the debut of “HFT Life”, which is a brand new concept store by Hung Fook Tong. Adapting a minimalistic interior design with gentle touches of wooden and white hues, HFT Life provides a relaxing and rejuvenating atmosphere for customers. Two HFT Life concept shops have opened on Caine Road and in Happy Valley respectively, since February 2021, with several other new shop locations under discussion with relevant landlords.

On the product front, the Group will be extending the chicken essence line by launching Cordyceps Organic Chicken Essence (野生冬蟲夏草有機滴雞精) in January 2021 as a premium alternative for customers. Still other important pursuits will include strengthening the Group's presence online and in the digital realm. Towards such objectives, it will enhance the Hung Fook Tong mobile application and encourage its download and usage by launching e-discount coupons in the second quarter of 2021. In addition, the new “JIKO ON” (自家 ON) online platform will be introduced in the second quarter of

2021, the first phase of rollout will be aimed at promoting engagement or co-operation among staff, companies and charities.

Wholesale

In Hong Kong, the Group will be closely monitoring the development of COVID-19 as it has a direct bearing on the recovery of key accounts. It is determined to strengthen its online sales and presence. The Group will also continue to engage in more cross brand products and promotions that result in special editions drinks. More seasonal and specialty products from different markets, such as soups from South Korea, will be introduced as well.

In Mainland China, the economy has rebounded since the second half of 2020, though the situation remains uncertain as there are still COVID-19 cases as of early 2021. Different brands are therefore expected to aggressively promote and sell their products online to recoup business. The Group will consequently look into the viability of promoting online as well as bringing its products back to online platforms, particularly those for consumers in Guangdong. It will also work closely with key accounts to strengthen business ties and bring more products back on the shelves.

Dr. Ricky Szeto, Chief Executive Officer and Executive Director of Hung Fook Tong, concluded, “Despite the various uncertainties, the Group is well-prepared and capable of overcoming whatever conditions that may arise in the coming year. With the 35th anniversary of Hung Fook Tong set to be the highlight of 2021, the Group will certainly embrace and celebrate this important triumph. At the same time, it will make every effort in ensuring that even more significant milestones are down the road.”

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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 about 119 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

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