



Hung Fook Tong Announces 2021 Interim Results

***Retains Leading Position in Hong Kong Retail Market with 121 shops
Revenue From Wholesale Business Up 10.9%***

Financial Highlights

(HK\$'000)	For the six months ended 30 June		
	2021	2020	Change
Revenue	346,286	345,172	+0.3%
Gross profit	210,470	222,433	-5.4%
Gross profit margin	60.8%	64.4%	- 3.6 ppt
Profit attributable to owners of the Company	7,272	23,043	- 68.4%
Earnings per share (HK cent)	1.11	3.51	- 68.4%

(Hong Kong, 27 August 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 unaudited condensed consolidated interim results for the six months ended 30 June 2021 (“1H2021”).

During 1H2021, the world remained in the grip of the Coronavirus Disease 2019 (“COVID-19”) pandemic. In Hong Kong, many segments continued to be impacted by weak consumer sentiment, including the retail industry. The Group was invariably affected, as reflected by a modest decline in retail segment revenue when compared with the six months ended 30 June 2020 (“1H2020”). In regard to the wholesale operation, both the Hong Kong and Mainland China businesses performed more favourably – the latter owing to the resumption of business ties with certain key accounts. Overall, the Group’s revenue increased by 0.3% to HK\$346.3 million (1H2020: HK\$345.2 million) during 1H2021.

Gross profit has, however, decreased by 5.4% to HK\$210.5 million (1H2020: HK\$222.4 million), and gross profit margin slipped to 60.8% (1H2020: 64.4%). The contractions were primarily due to lower gross profit from the Hong Kong retail business as a result of higher raw material and labour costs, as well as higher production costs at the Kaiping plant owing to the appreciation of the Renminbi.

Furthermore, due to increases in rental expenses and staff costs associated with new shop openings, increase in utility expenses, greater advertising and promotion expenses, higher development costs from certain new lines of business, together with the significant decrease in government grants and subsidies received or receivable, mainly comprising subsidies for the retail sector and food licence holders of HK\$1.4 million (1H2020: HK\$9.6 million), profit attributable to owners of the Company dropped by 68.4% to HK\$7.3 million (1H2020: HK\$23.0 million).

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, “Despite the challenging conditions, the Group has prudently scaled up its business and expedited brand development as it celebrates the 35th anniversary of establishment. The efforts have thereby preserved the Group’s standing as the largest herbal retailer in Hong Kong based on retail network size.”

Business Review

Hong Kong Retail

Continuing to be the Group’s major revenue contributor, the Hong Kong retail operation generated HK\$270.6 million (1H2020: HK\$276.9 million) in revenue – a year-on-year decline of 2.3%, which equated to 78.1% of total revenue in 1H2021. The modest decline was mainly due to the lingering effects of COVID-19 that kept certain social distancing and health measures in place, as well as weak consumer sentiment, which in turn resulted in a decline in footfall and same-store sales. Moreover, income derived from its participation in exhibitions and expos was lower as certain events were either cancelled or of a smaller scale. The retail operation also experienced a drop in profit; down by 58.0% to HK\$23.8 million (1H2020: HK\$56.6 million). The contraction was due to a combination of factors, including a decline in revenue; deep promotional discounts which affected the gross profit margin; increase in raw material, labour and rental costs; and a drop in government grants and subsidies – falling from HK\$9.6 million in 1H2020 to about HK\$1.4 million in 1H2021.

The Group’s network of self-operated shops expanded to 121, including the opening of five “HFT Life” café concept stores and one new shop located at the Tuen Ma Line. Moreover, the number of JIKA CLUB members has exceeded 1,080,000 as of 30 June 2021.

Introduced in February 2021, the “HFT Life” brand represents an innovative new café concept developed by the Group. In line with the principle of bringing together Western and Chinese culinary cultures, HFT Life’s offerings include baked goods from Handmade Bakery (嚙麥手作) and the Group’s signature soups and drinks. HFT Life also offers a simple, stylish environment in which to relax and enjoy its diverse food and drink offerings, all the while allowing the Group to also broaden its customer base, tap new culinary areas and boost its image among the younger generation.

Wholesale

Revenue from the wholesale segment picked up; rising by 10.9% to HK\$75.7 million (1H2020: HK\$68.2 million), which was mainly due to an improvement in sales derived from the Mainland China market in 1H2021. What is more, segment profit rose appreciably by 1,431.0% to HK\$7.9 million (1H2020: HK\$0.5 million), which can be attributed to an increase in segment results from the Hong Kong wholesale operation resulting from lower advertising expenses and transportation costs. The Mainland China wholesale business also moved from a loss to profit making position, following the re-engineering of the Group's business processes.

In **Hong Kong**, revenue from the wholesale business totalled HK\$60.5 million (1H2020: HK\$60.7 million), due to stable ties with key accounts, distributors and online resellers. Moreover, the Group was able to tap more wholesale channels including online sales platforms. Still other efforts aimed at driving sales included the cross branding of products with the theme of "Old Hong Kong" (懷舊・香港地) for tapping the public's love of nostalgia for the past.

In **Mainland China**, wholesale revenue soared by 102.1% to HK\$15.2 million (1H2020: HK\$7.5 million), during 1H2021. The upturn can be attributed to the Group's unremitting effort to restore business ties with key accounts, mainly in South China, which were severed due to social activities in Hong Kong in the second half of 2019 – the Group's products were available again at certain key accounts from April 2020 onwards, hence also explains the relatively lower revenue base in 1H2020.

During the period, the Group principally focused on bringing its products back to Guangdong Province. Owing to such effort, a greater array of fresh and long shelf-life bottled drinks became available once again at over 10,000 convenience stores in Guangzhou, Dongguan, Shenzhen, etc.

Prospects

Hong Kong has recently gained the upper hand on the pandemic crisis, due in part to a steady rise in vaccinations. Consequently, the Hong Kong Retail Management Association anticipates the local tourism, trade and economy will eventually return to normal. The Group believes that it is in a strong position to take advantage of the gradual recovery. Ahead of this eventuality, it has been actively preparing for the opening of new stores while concurrently boosting its online shopping and delivery services to capitalise on the digital shopping trend. The Group will also continue to engage in cross brand collaborations to achieve mutual success and launch cross brand products or promotions to arouse the interest of customers.

Hong Kong Retail

The Group plans to open a minimum of three new shops in the second half of 2021. Two HFT Life cafés opened at Cyberport and Hong Kong Polytechnic University in July and August respectively, thus bringing the total number of HFT Life cafés to seven. Another new shop for the Hung Fook Tong brand has opened in Kowloon in August, with more HFT Life café openings in the works.

Besides network expansion, the Group has partnered with SunnyHills(微熱山丘), a popular Taiwan brand, in launching the FORBIDDEN Durian Mooncake Series since July this year. In addition, to appeal to the tastes of male customers, the Group will be launching new product as part of the Essence Category. Also recognising the potential and importance of its mobile application, the Group will improve its user experience by adding new features, such as offering electronic discount coupons and rolling out the “JICA Pay” e-Card campaign to encourage download and usage.

Furthermore, the Group will present a revamped “JICA ON!” online platform in the third quarter of 2021, which will widen the spectrum of products to include more health, beauty and household products.

Wholesale

On the Hong Kong wholesale front, the Group will launch new products, comprising limited edition and brand collaboration products. Correspondingly, new soy milk drinks and fruit tea series that are part of the bottled drinks line up will be introduced. The Group has also partnered with KFC in launching a collaborative product, i.e. Heat Relief Herbal Drink (下火茶). In addition, more food items are set for introduction in the second half year, and will include a new vegetarian ambient soup and pre-packed vegetarian dishes.

As for Mainland China, the Group will be vigorously promoting its products via online platforms. In addition, it will seek to strengthen ties with key accounts, principally in Guangdong Province, so that more of the Group’s products can be restocked in convenience stores and supermarkets.

Dr. Ricky Szeto, Chief Executive Officer and Executive Director of Hung Fook Tong, concluded, “As COVID-19 has raised public awareness of the importance of leading a healthy lifestyle, which includes consuming healthy food, this awareness will play to the traditional and longstanding strengths of Hung Fook Tong. The Group therefore remains confident in its ability to weather whatever conditions that may come as well as address the interests of its stakeholders.”

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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 35 years. Currently, it has over 121 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.

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