



Hung Fook Tong Announces 2021 Annual Results

***Retains Leading Position in the Hong Kong Herbal Retail Market
Achieves Steady Growth in Wholesale Business***

Financial Highlights

(HK\$'000)	For the year ended 31 December		
	2021	2020	Change
Revenue	695,996	702,473	-0.9%
Gross profit	417,273	447,820	-6.8%
Gross profit margin (%)	60.0%	63.7%	-3.7ppt
Profit attributable to owners of the Company	8,223	62,530	-86.8%
Earnings per share for profit attributable to owners of the Company (HK cent)	1.25	9.53	-86.9%
Total dividends per ordinary share (HK cent)	0.68	2.86	-76.2%

(Hong Kong, 28 March 2022) – **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 2021 (“2021”).

During 2021, the dark cloud of the COVID-19 pandemic continued to cause a general downturn in business activities. The Group’s Hong Kong retail business was not immune to the pandemic’s impact, with the Group’s revenue declining modestly by 0.9% to HK\$696.0 million (2020: HK\$702.5 million) during the financial year. Nevertheless, the Group was able to achieve a steady growth in the Hong Kong wholesale business, and gradual recovery of the Mainland China wholesale operation as a result of the resumption of business ties with certain key accounts.

Gross profit contracted by 6.8% to HK\$417.3 million (2020: HK\$447.8 million), while the gross profit margin slipped to 60.0% (2020: 63.7%) owing to the increase in price of certain raw materials, and appreciation of the Renminbi, which in turn led to an increase in production cost at the Group’s plant in Kaiping City, Guangdong.

Furthermore, operating expenses rose primarily due to higher staff costs and utility expenses. The Group also incurred greater rental costs, advertising and promotion expenses as well as higher development costs from certain new lines of business. Most significantly, the Group received considerably less government grants and subsidies from pandemic relief measures (comprising

subsidies for the retail sector and food license holders and funds from the Employment Support Scheme), which amounted to HK\$1.4 million for 2021 versus HK\$45.5 million in 2020. Therefore, profit attributable to owners of the Company fell by 86.8% to HK\$8.2 million (2020: HK\$62.5 million).

In view of the sound fundamentals of the Group, the Board has resolved to recommend a final dividend and a special dividend of HK0.37 cent and HK0.31 cent per ordinary share, respectively, totalling HK0.68 cent per ordinary share (2020: a final dividend of HK1.96 cents per ordinary share and a special dividend of HK0.90 cent per ordinary share).

Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong, said, “The year 2021 marked the 35th anniversary of Hung Fook Tong’s founding and fruitful journey in the wellness food and beverage industries. With the strong brand equity that the Group enjoys, we are in an advantageous position to capture the thriving demand for healthy food and beverages that has been driven by the pandemic.”

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\$525.1 million (2020: HK\$548.6 million) in revenue during the financial year, which was down 4.3% year-on-year and accounted for 75.4% of the Group’s total revenue. The decline was mainly due to lower footfall and same-store sales amid COVID-19 control measures and dampened consumer sentiment. Meanwhile, segment profit dropped by 71.7% to HK\$31.1 million (2020: HK\$109.8 million) mainly due to the offering of deep promotional discounts; an increase in raw material, labour and rental costs; an increase in utility, advertising and promotion expenses; and a significant drop in government grants received or receivable as part of pandemic relief measures.

The Group’s robust store network comprises 122 self-operated shops in Hong Kong as of 31 December 2021. With the opening of seven “HFT Life” café concept stores and two new shops located at the Tuen Ma Line and in Ho Man Tin, the Group has reinforced 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 exceeded 1,159,000.

The introduction of the “HFT Life” brand in early 2021 marked the realisation of a new café concept. Within its simple yet stylishly designed shops are an array of food items, including baked goods from Handmade Bakery (嚟麥手作), salad, coffee, organic oatmeal and fruit tea, along with the Group’s signature soups and drinks. Such diverse yet healthy offerings thus enable the Group to broaden its customer base to include younger urbanites.

With an eye on accommodating the growing demand for a healthy diet and the new normal of “stay-at-home” and “work-from-home”, the Group has further expanded the Joyous Series (自家喜慶系列) with the introduction of Cordyceps Organic Chicken Essence (野生冬蟲夏草有機滴雞精) and a new Clam Essence (黃金蜆精) during 2021. Also, more homemade dishes (自家小菜), snack options (自家小食) and easy-to-cook bulk pack frozen products were launched, which are easy to prepare and conducive to meals at home.

On the digital front, the Hung Fook Tong mobile application (“APP”) has experienced increased take-up, with the number of downloads continuing to rise steadily. Also, the Group launched the “JIKI ON!” online platform in late 2021. The platform sells a wide spectrum of healthy, eco-friendly or locally produced products, with a focus on household needs for families.

Wholesale

The wholesale segment generated revenue of HK\$170.9 million, which was an increase of 11.0% over the previous year (2020: HK\$153.9 million) – an upturn supported by a sales recovery in the Mainland China market. Furthermore, segment profit recorded a sharp rise of 192.5% to HK\$23.7 million (2020: HK\$8.1 million), as the Mainland China wholesale business returned to profitability after the re-engineering of the Group’s business processes. Additionally, an improvement in segment results by the Hong Kong wholesale business – facilitated by a decline in selling expenses, further contributed to the rise in profit from the wholesale business.

In **Hong Kong**, the wholesale business continued to deliver a steadily growing source of revenue to the Group, which, amounted to HK\$135.0 million (2020: HK\$132.1 million) during 2021, or a year-on-year rise of 2.2%. The increase can be attributed to the robust ties it enjoys with key accounts, distributors and online resellers, even amidst COVID-19. More online channels have also been tapped.

Among the new drinks introduced include those involving cross-brand collaborations, such as Ice Lemon Tea Drink (凍檸茶) with Honolulu Cafe (檀島咖啡餅店), and a Tangerine Peel Mandarin Drink (陳皮柑桔) in co-operation with Koon Wah Food (冠華食品). Both adopted special packaging under an “Old Hong Kong Style” (懷舊・香港地) nostalgic theme. In addition, the Group partnered with KFC in bringing a Heat Relief Herbal Drink (下火茶) to customers. As for the non-beverage products category, the Group brought to market various ambient temperature soup packs as well as imported goods from Taiwan and South Korea.

In **Mainland China**, the wholesale revenue up 64.4% to HK\$35.9 million (2020: HK\$21.8 million), as the Group restored business ties with key accounts, mainly in Southern China.

The Group has devoted greater energies to bringing its products back to Guangdong Province by working with key accounts with good sales records. As a result, a greater array of fresh and long shelf-life bottled drinks have once again appeared at over 7,000 convenience stores in Guangzhou, Dongguan, Shenzhen, Shanghai, etc. The Group's products have also been made available at supermarkets, department stores, local grocery stores and through online platforms such as JD.com (京東), Tmall (天貓) and Meituan (美團).

The Mainland China wholesale operation has undergone business optimisation, which has involved the re-engineering of business processes, including the shifting of logistics and brand maintenance activities to distributors. Such changes have allowed the Group to operate a single office in Guangzhou, which in turn has enabled it to reduce both operational and management costs.

Prospects

In the wake of the Omicron variant, the retail and wholesale industries are anticipated to face an even more challenging business environment in 2022, as the retail sentiment and store traffic sank to a new low after the lunar new year holidays. Despite the challenges and uncertainties ahead, the Group is fully aware that there are opportunities emerging from the new normal. In particular, the increased health consciousness of consumers and the rising demand for pre-packaged foods constitute revenue streams that the Group can effectively tap owing to its expertise and brand equity. The effort to develop new business lines will also start to bear fruit as more new customers are secured. At the same time, the Group will carefully manage the operating costs as the production costs of the retail industry are expected to rise.

Hong Kong Retail

The Group will seek to fortify its leading retail market position by opening up to 10 stores in 2022, comprising both Hung Fook Tong and "HFT Life" outlets. Subsequent to the reporting period, the Group had already opened one new shop in Hung Hom Station in January, and an additional "HFT Life" store at Hong Kong Science Park in February. Three more sites have been secured, located in shopping malls and MTR stations, including the East Rail Line Cross-Harbour Extension. The Group is also in talks with landlords for considerable rental concessions during this highly difficult time.

As for leveraging the stay-at-home economy, it will develop more products that are easy to prepare and consume at home. This will include ambient temperature soup packs and frozen food packs. With reference to the gift giving market, the Group will tap this segment through such products as the New Year Gift Hamper, Pudding Castella Cake (日式布丁燒)-cum-farewell gift and dessert for sharing, and Pineapple Cake (洛神花鳳梨酥) as wedding gifts for guests.

Increasing memberships and building loyalty will continue to be primary objectives. Correspondingly, the Group will focus on membership recruitment and efforts to increase APP downloads and usage. As for the JIKA ON! online platform, special offers for existing JIKA CLUB members will be employed to boost registration for JIKA ON! and to generate synergies between the two memberships.

Wholesale

In **Hong Kong**, the Group will seek to strengthen the online sales capability of the Hong Kong wholesale business by joining more online channels and rolling out attractive online offers. In achieving higher brand exposure, the Group will launch a number of new products including herbal and dessert-flavoured bottled drinks. Cross-brand collaborations in special edition drinks will also be pursued, along with the introduction of more non-beverage products, such as soup packs and snacks, that target key accounts.

In **Mainland China**, the Group will step up its promotional efforts via online platforms and by leveraging more online or social media channels, as Mainland China retailers are expected to continue promoting and selling their products online. A dedicated online shop will also be rolled out in the coming year.

The Group will continue to employ the “Hong Kong Brand” and “Old Hong Kong Taste” as edges, as it strives to make further inroads in a highly competitive business environment. Complementing this strategy, the Group will continue to bolster ties with key accounts so that more products are reintroduced to convenience stores and supermarkets. Leveraging links with distributors, the Group will also seek to re-enter second-tier cities in Guangdong Province. At the same time, new products will be introduced, including the new Mango Deluxe products, fruit teas, custom-made drinks, soup packs, etc.

Dr. Ricky Szeto, Chief Executive Officer and Executive Director of Hung Fook Tong, concluded, “Looking ahead, Hung Fook Tong will strive to sustain its market leadership while addressing the needs of modern health-conscious consumers. The Group is confident in its ability to navigate through whatever challenges lay ahead and continue to create long-term value for 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 modern wellness concept food and beverage enterprise, offering a wide range of additive-free healthy food products for more than 35 years. Currently, it has more than 120 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

Miki Ho

Tel: 3651 2248

Email: agnesluo@hungfooktong.com.hk

Email: mikiho@hungfooktong.com.hk