



## Hung Fook Tong Announces 2022 Annual Results

***Retains Leading Position in Hong Kong Retail Market with 120 Shops;  
Supported by a Prudent Market-Driven Strategy and  
Greater Product Exposure***

### **Financial Highlights**

(HK\$'000)	For the year ended 31 December		
	2022	2021	Change
Revenue	<b>686,718</b>	695,996	-1.3%
Gross profit	<b>406,312</b>	417,273	-2.6%
Gross profit margin	<b>59.2%</b>	60.0%	-0.8ppt
Profit attributable to owners of the Company	<b>7,472</b>	8,223	-9.1%
Earnings per share for profit attributable to owners of the Company (HK cent)	<b>1.14</b>	1.25	-8.8%
Total dividends per ordinary share (HK cent)	<b>0.62</b>	0.68	-8.8%

(Hong Kong, 27 March 2023) – **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 2022 (“2022”).

During 2022, the Group was confronted by weak consumer demand both in Hong Kong and Mainland China resulting from protracted COVID-19 control measures. The business conditions were in fact more challenging than what was experienced in 2021 and even 2020. Therefore, the Group's revenue amounted to HK\$686.7 million (2021: HK\$696.0 million), down 1.3% year-on-year. Gross profit slipped by 2.6% to HK\$406.3 million (2021: HK\$417.3 million), and gross profit margin edging downwards to 59.2% (2021: 60.0%), mainly due to the decline in revenue and rise in raw material costs and utility expenses. Consequently, profit attributable to owners of the Company decreased by 9.1% to HK\$7.5 million (2021: HK\$8.2 million).

In appreciation of shareholders' support for the Group, the Board has resolved to recommend a final dividend and a special dividend of HK0.34 cent and HK0.28 cent per ordinary share, respectively, totalling HK0.62 cent per ordinary share (2021: final dividend of HK0.37 cent per ordinary share and special dividend of HK0.31 cent per ordinary share).

**Mr Tse Po Tat, Chairman and Executive Director of Hung Fook Tong**, said, “During 2022, business conditions in Hong Kong declined even further. Even in the face of strong headwinds, we persisted with our plans to advance different facets of operation so as to maintain the Group’s market leading position.”

### **Business Segment Analysis**

#### **Hong Kong Retail**

The Hong Kong retail business, which is the Group’s largest revenue contributor, generated HK\$517.4 million (2021: HK\$525.1 million) in revenue during the financial year – down 1.5% year-on-year, and accounted for 75.3% of the Group’s total revenue. Store traffic and same-store sales experienced a decline, as rigorous social distancing measures were introduced in early 2022. At the same time, numerous physical exhibitions and corporate sales booths were also suspended during the fifth wave of the pandemic.

Still, segment profit slightly increased by 0.6% year-on-year to HK\$31.3 million (2021: HK\$31.1 million), mainly due to the securing of rental concessions, and the receipt of more government grants from pandemic relief measures compared with 2021, comprising funds from the Employment Support Scheme and the Catering Business Subsidy Scheme.

The Group has maintained its standing as the largest herbal retailer in Hong Kong based on retail network size, with 120 self-operated shops as at 31 December 2022, including 10 HFT Life stores which are positioned for attracting a young demographic. During the financial year, the Group opened a total of seven new shops, including three HFT Life café concept stores, as well as four Hung Fook Tong shops in MTR stations and a shopping mall.

Moreover, to specifically address the decline in number of transactions during the pandemic, the Group ramped up its marketing efforts and launched new products to promote spending, resulting in a 13% rise in average spending per transaction by JIKA CLUB (自家 CLUB) members as compared with 2021.

As always, the Group has been dedicated to acquiring and engaging with members while concurrently driving digitalisation. The number of JIKA CLUB members has reached 1,258,000 as at 31 December 2022 – equating to an increase of around 99,000 members during the financial year. On the digitalisation front, the Group rolled out a number of incentives to promote the download and use of the Hung Fook Tong mobile application (“APP”).

As for the new “JIKA ON!” (自家 ON!) online marketplace - launched at the end of 2021, the Group sought to attract JIKA CLUB members and other consumers to register via special offers and promotions at shops, expos and online channels. For expanding its product range, the Group introduced healthy food and supplements, imported food and pet products that appeal to health-conscious and family-oriented customers.

## Wholesale

The wholesale segment recorded revenue of HK\$169.3 million (2021: HK\$170.9 million), dipping by 0.9% year-on-year, due to a decline in business in Mainland China which was impacted by the pandemic, as well as the absence of a one-off financial income as recorded in 2021. Owing to the revenue decline and the rise in production costs, segment profit retreated 13.1% to HK\$20.6 million (2021: HK\$23.7 million).

In **Hong Kong**, the Group's wholesale operation managed to overcome generally lacklustre demand to achieve 5.8% year-on-year revenue growth to HK\$142.9 million (2021: HK\$135.0 million). This was achieved through higher sales from key accounts on the back of new beverage product launches, as well as the securing of bulk commercial orders.

The Group has also tapped various exciting cross-brand collaborations to drive growth, including the launch of a series of new co-branded herbal drinks with PARKnSHOP Supermarket and a special drink with TamJai Yunnan Mixian. In terms of product packaging, the Group launched a series of art-theme special edition bottled drinks, reinforcing the Group's brand equity.

In **Mainland China**, owing to stringent COVID-19 control measures, consumer sentiment was severely impacted during the financial year. In addition, there was a one-off financial income recorded in 2021 of approximately HK\$5.5 million that did not recur in the latest financial year. Due to the aforementioned, revenue in Mainland China contracted by 26.3% to HK\$26.4 million (2021: HK\$35.9 million).

Despite the headwinds encountered, the Group sought to strengthen its presence in the Mainland China market, particularly Southern China, by leveraging its partnership with a national distributor. Consequently, the Group's products were available at supermarkets and convenience stores in Guangzhou, Dongguan, Shenzhen, Shanghai, etc. In addition, the Group penetrated second-tier cities in Guangdong Province such as Yang Jiang and Shan Wei in 2022.

Fully aware of the growing importance of online sales channels, the Group continued to promote its products via online platforms, such as JD.com, Taobao, Tmall and Meituan. This has been underpinned by greater promotions on increasingly popular social media platforms such as Douyin and Xiao Hong Shu.

As for **other markets**, sales from overseas markets such as the United States, Canada and Australia began a gradual recovery as the impact of the COVID-19 pandemic started to recede respectively. Of note, particularly favourable sales growth was experienced in Malaysia and the United Kingdom. In view of the potential that overseas markets hold, the Group will continue to prudently expand into new markets while reinforcing existing markets; remaining mindful of the lingering effects of COVID-19 and high logistics costs.

## **Prospects**

While the 2023 year has started positively with Hong Kong lifting most of its COVID-19 restrictions in late December 2022, and its borders with Mainland China have been gradually opening in phases from January, the Group remains highly cautious about its retail performance in the coming first half year. Moreover, retailers must not ignore the uncertainties brought by rising geopolitical tensions, inflationary cost pressure, higher interest rates and the looming possibility of a global economic recession.

The Group will stay vigilant as it navigates through market uncertainties under the “New Normal”. It will leverage its stringent cost controls, such as the streamlining of its supply chain and cost structures, to maintain a healthy financial position. The Group will also focus on strengthening its market presence and penetration efforts to tap new revenue streams. It will do so via product development, sales channel expansion and geographical expansion such as in Mainland China and overseas markets.

## **Hong Kong Retail**

With the reopening of borders, a gradual recovery in overall consumer sentiment is expected. To maintain the Group’s market leadership, it will be reinforcing its robust store network with the opening of approximately eight new stores in 2023, including at least one HFT Life.

The Group will also bolster its product portfolio by introducing more herbal teas with low-sugar or sugar-free formulas in view of their encouraging sales performance. Furthermore, the Group will develop more long shelf-life ambient products, as well as a larger selection of meal options for those in postpartum confinement. At the same time, to add to the appeal of HFT Life, the Group will be rolling out more bakery and dessert items in view of positive feedback, as well as special coffees and drinks.

In respect of memberships, the Group will continue to implement its strategy for increasing JIKA CLUB members, building loyalty and accelerating digitalisation. The Group will be providing exclusive offers and joint promotions for members, as well as employing referral programmes to recruit new members. Moreover, customised promotions will be extended to members via the APP to encourage their patronage while accelerating the APP’s download. Similarly, to boost registration and the use of the JIKA ON! online platform, the Group will introduce new offerings, including more healthy food and ready-to-eat options.

## **Wholesale**

### ***Hong Kong***

Exploring more cross-brand partnerships and introducing new products will be among the objectives of the Hong Kong wholesale operation in the coming year. The partnership arrangements will include product development and marketing, as evidenced by the rollout of two more flavours of Hung Fook Tong x PARKnSHOP Supermarket drinks in the first quarter of 2023. The Group will also introduce a new array of herbal drinks or existing products that feature new packaging with special themes.

Going forward, the Group will continue to negotiate with partners so as to tap more sales channels, including physical and online sales points, to further penetrate the local market.

### **Mainland China**

As Mainland China has been lifting many of its pandemic control measures near the end of 2022, consumer sentiment and shop traffic are expected to improve in 2023. It is therefore the correct time to double down on sales and marketing efforts to capture opportunities. The Group will continue to work closely with a national distributor to efficiently introduce more long shelf-life beverage products. In addition, it will nurture ties with key accounts to increase penetration of the Group's fresh beverage products in convenience stores and supermarkets. Moreover, greater resources will be allocated to boosting online platform sales, which will be supported by promotions on online and social media platforms.

### **Other Markets**

More emphasis will be placed on tapping overseas markets as the Group seeks new revenue streams. With the shadow of the pandemic gradually lifting from many of the Group's overseas markets, it expects sales to pick up in 2023. To drive sales growth, particularly in the United Kingdom where there has been growing demand for the Group's health drinks and products, it aims to establish more sales channels in the country. The Group will also work on further penetrating the Australia market. In addition, the Group will be eyeing new markets, such as South Korea, Japan and Thailand, where discussions with relevant distributors have already commenced.

**Dr. Ricky Szeto, Chief Executive Officer and Executive Director of Hung Fook Tong**, concluded, "Looking ahead, while remaining highly cautious and prudent, the Group will adhere to the "3H" business model, comprising the three pillars of "Health", Herbal" and "Home", with the ultimate objective of generating long-term sustainable returns for our shareholders."

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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 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 about 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](http://www.hungfooktong.com)

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