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**HUNG FOOK TONG**

## **HUNG FOOK TONG GROUP HOLDINGS LIMITED**

**鴻福堂集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1446)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **HIGHLIGHTS**

- Revenue for the year ended 31 December 2020 (“**2020**”) decreased by 9.5% to HK\$702.5 million from HK\$775.8 million for the year ended 31 December 2019 (“**2019**”).
  - Revenue from retail business decreased by 5.6% to HK\$548.6 million, with a retail network comprising 119 retail shops in Hong Kong as at 31 December 2020.
  - Revenue from wholesale business decreased by 21.0% to HK\$153.9 million.
- Gross profit for 2020 decreased by 8.4% to HK\$447.8 million from HK\$488.7 million in 2019, while gross profit margin for 2020 increased by 0.7 percentage point to 63.7% as compared to 63.0% in 2019.
- Profit attributable to owners of the Company for 2020 increased by 524.6% to HK\$62.5 million (2019: HK\$10.0 million).
- Earnings per share for profit attributable to owners of the Company for 2020 was HK9.53 cents (2019: HK1.53 cents).
- Proposed a final dividend of HK1.96 cents per ordinary share (2019: a final dividend and a special dividend of HK0.46 cent and 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).

## RESULTS

The board of directors (the “**Board**”) of Hung Fook Tong Group Holdings Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020 together with comparative figures for the previous financial year 2019 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

		Year ended 31 December	
		2020	2019
	Note	HK\$'000	HK\$'000
Revenue	3,4	702,473	775,789
Cost of sales	6	(254,653)	(287,084)
<b>Gross profit</b>		<b>447,820</b>	488,705
Other income, net	5	13,412	3,948
Selling and distribution costs	6	(71,365)	(89,689)
Administrative and operating expenses	6	(313,467)	(381,237)
Impairment loss on financial assets	6	(2,415)	(1,875)
<b>Operating profit</b>		<b>73,985</b>	19,852
Finance income	7	66	81
Finance costs	7	(7,256)	(6,208)
Finance costs, net	7	(7,190)	(6,127)
Share of losses of an associate and joint ventures accounted for using the equity method		(19)	(55)
<b>Profit before income tax</b>		<b>66,776</b>	13,670
Income tax expense	8	(5,463)	(3,268)
<b>Profit for the year</b>		<b>61,313</b>	10,402
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		62,530	10,012
Non-controlling interests		(1,217)	390
		<b>61,313</b>	<b>10,402</b>

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
<i>Note</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Other comprehensive income/(loss):</b>		
<i>Item that may be reclassified to profit or loss</i>		
– Currency translation differences	<u>12,941</u>	<u>(4,123)</u>
<b>Other comprehensive income/(loss), net of tax</b>	<u>12,941</u>	<u>(4,123)</u>
<b>Total comprehensive income for the year</b>	<u>74,254</u>	<u>6,279</u>
<b>Total comprehensive income/(loss) attributable to:</b>		
Owners of the Company	75,328	5,963
Non-controlling interests	<u>(1,074)</u>	<u>316</u>
	<u>74,254</u>	<u>6,279</u>
<b>Earnings per share for profit attributable to owners of the Company</b>		
– Basic and diluted ( <i>HK cents per share</i> )	9	
	<u>9.53</u>	<u>1.53</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*AS AT 31 DECEMBER 2020*

		<b>As at 31 December</b>	
		<b>2020</b>	<b>2019</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>310,348</b>	309,148
Right-of-use assets		<b>213,571</b>	204,016
Investments in an associate and joint ventures		<b>36</b>	55
Prepayments and deposits		<b>36,578</b>	28,486
Deferred income tax assets		<b>14,891</b>	7,594
		<u><b>575,424</b></u>	<u>549,299</u>
<b>Current assets</b>			
Inventories		<b>46,047</b>	43,768
Trade receivables	<i>11</i>	<b>42,438</b>	48,220
Prepayments, deposits and other receivables		<b>32,225</b>	50,806
Amount due from a related company		<b>690</b>	690
Tax recoverable		<b>2,798</b>	986
Cash and cash equivalents		<b>134,905</b>	95,353
		<u><b>259,103</b></u>	<u>239,823</u>
<b>Total assets</b>		<u><b>834,527</b></u>	<u>789,122</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	<i>12</i>	<b>6,559</b>	6,559
Reserves		<b>329,040</b>	265,125
		<u><b>335,599</b></u>	<u>271,684</u>
<b>Non-controlling interests</b>		<u><b>(991)</b></u>	<u>83</u>
<b>Total equity</b>		<u><b>334,608</b></u>	<u>271,767</u>

		As at 31 December	
		2020	2019
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities		81,077	71,124
Provision for reinstatement costs		5,268	4,495
Deferred income tax liabilities		9,457	93
Bank borrowings		8,213	58,879
		<u>104,015</u>	<u>134,591</u>
<b>Current liabilities</b>			
Trade payables	<i>13</i>	29,078	34,720
Accruals and other payables	<i>14</i>	74,687	64,727
Provision for reinstatement costs		2,437	2,859
Receipts in advance		157,298	162,044
Lease liabilities		94,705	82,333
Bank borrowings		33,386	34,732
Taxation payable		4,313	1,349
		<u>395,904</u>	<u>382,764</u>
<b>Total liabilities</b>		<u>499,919</u>	<u>517,355</u>
<b>Total equity and liabilities</b>		<u>834,527</u>	<u>789,122</u>
<b>Net current liabilities</b>		<u>(136,801)</u>	<u>(142,941)</u>
<b>Total assets less current liabilities</b>		<u>438,623</u>	<u>406,358</u>

## NOTES

### 1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 10 January 2014 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together the “**Group**”) are principally engaged in the retail, wholesale and distribution of bottled drinks, other herbal products, soups and snacks in Hong Kong and other parts of the People’s Republic of China (“**PRC**” for the purpose of this set of consolidated financial statements) (the “**Business**”).

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), unless otherwise stated.

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and requirements of the Hong Kong Companies Ordinance (Cap.622). They have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The Group’s current liabilities exceeded its current assets by HK\$136,801,000 as at 31 December 2020 (2019: HK\$142,941,000). The directors of the Company have reviewed the Group’s cash flow projections, which cover a period of 12 months from 31 December 2020. The directors are of the opinion that, taking into account the anticipated cash flows generated from the Group’s operations as well as the possible changes in its operating performance and the continued availability of the Group’s banking facilities, the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming 12 months from 31 December 2020. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Summary of significant accounting policies

#### (a) Amended standards and revised conceptual framework adopted by the Group

The Group has applied the following amendments to standards and revised conceptual framework for the first time for their annual reporting period commencing 1 January 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting
HKFRS 3 (Amendments)	Definition of Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The newly adopted amendments to existing standards and revised conceptual framework listed above did not have material impact on the results and financial position of the Group.

#### (b) New and amended standards, improvement, interpretation and accounting guideline not yet adopted

The following new standard, amendments to existing standards, improvement, interpretation and accounting guideline have been issued but are not effective for the financial year beginning on or after 1 January 2020 and have not been early adopted:

		<b>Effective for annual periods beginning on or after</b>
HKFRS 16 (Amendments)	Covid-19 Related Rent Concessions	1 June 2020
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Annual Improvements Project	Annual Improvements to HKFRSs Standards 2018 – 2020	1 January 2022
Amendments to HKFRS 3, HKAS 16, and HKAS 37	Narrow-scope Amendments	1 January 2022
Hong Kong Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HK (IFRIC) – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

The Group will adopt the above new standard, amendments to existing standards, improvement, interpretation and accounting guideline when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standard, amendments, improvement, interpretation and accounting guideline, none of which is expected to have a significant effect on the consolidated financial statements of the Group.

### 3 SEGMENT INFORMATION

The segment information provided to the executive directors for the years ended 31 December 2020 and 2019 is as follows:

	Year ended 31 December 2020		
	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
<b>Segment revenue</b>	<b>554,948</b>	<b>157,857</b>	<b>712,805</b>
Less: Inter-segment revenue	(6,370)	(3,962)	(10,332)
Revenue from external customers	<u>548,578</u>	<u>153,895</u>	<u>702,473</u>
<b>Segment results</b>	<b>109,793</b>	<b>8,093</b>	<b>117,886</b>
Corporate expenses			(42,276)
Share of losses of an associate and a joint venture accounted for using the equity method			(19)
Impairment on loan to an associate			(625)
Impairment on amount due from a non-controlling interest			(1,000)
Finance costs, net			<u>(7,190)</u>
Profits before income tax			<b>66,776</b>
Income tax expense			<u>(5,463)</u>
<b>Profit for the year</b>			<b><u>61,313</u></b>
<b>Other segment items:</b>			
Capital expenditure	15,888	12,657	28,545
Depreciation and amortisation	116,044	13,088	129,132
Losses/(gains) on disposal of property, plant and equipment	96	(2)	94
Provision for impairment on trade receivables	<u>446</u>	<u>344</u>	<u>790</u>
	Year ended 31 December 2019		
	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
<b>Segment revenue</b>	<b>589,040</b>	<b>196,131</b>	<b>785,171</b>
Less: Inter-segment revenue	(7,961)	(1,421)	(9,382)
Revenue from external customers	<u>581,079</u>	<u>194,710</u>	<u>775,789</u>
<b>Segment results</b>	<b>81,111</b>	<b>(4,874)</b>	<b>76,237</b>
Corporate expenses			(51,073)
Relocation of factories related expenses			(5,312)
Share of losses of joint ventures accounted for using the equity method			(55)
Finance costs, net			<u>(6,127)</u>
Profit before income tax			<b>13,670</b>
Income tax expense			<u>(3,268)</u>
<b>Profit for the year</b>			<b><u>10,402</u></b>
<b>Other segment items:</b>			
Capital expenditure	14,942	38,008	52,950
Depreciation and amortisation	103,727	8,841	112,568
Gains on disposal of property, plant and equipment	(15)	(506)	(521)
Provision for impairment on trade receivables	<u>–</u>	<u>1,875</u>	<u>1,875</u>

### 3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 31 December 2020 and 2019 are as follows:

	<b>Hong Kong Retail</b> <i>HK\$'000</i>	<b>Wholesale</b> <i>HK\$'000</i>	<b>Elimination</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>As at 31 December 2020</b>				
<b>Segment assets</b>	<b>526,938</b>	<b>281,100</b>	<b>(429)</b>	<b>807,609</b>
Amount due from a related company				690
Investments in an associate and a joint venture				36
Tax recoverable				2,798
Deferred income tax assets				14,891
Corporate assets				8,503
<b>Total assets</b>				<b>834,527</b>
<b>As at 31 December 2019</b>				
<b>Segment assets</b>	489,110	277,712	(607)	766,215
Amount due from a related company				690
Investments in joint ventures				55
Tax recoverable				986
Deferred income tax assets				7,594
Corporate assets				13,582
<b>Total assets</b>				<b>789,122</b>

The eliminations between the reportable segments are intercompany receivables and payables between the operating segments.

The Company is domiciled in the Cayman Islands while the Group operates its business primarily in Hong Kong and the PRC. For the year ended 31 December 2020, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2019: Nil).

The Group's revenue by geographical locations (as determined by the area or country in which the customer is operated) is analysed as follows:

	<b>Year ended 31 December</b>	
	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	<b>669,443</b>	699,068
The PRC	<b>21,808</b>	59,743
Overseas countries	<b>11,222</b>	16,978
	<b>702,473</b>	775,789

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2020 and 2019.

### 3 SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the carrying amounts of the Group's segment assets analysed by geographical area in which the assets are located:

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Hong Kong	574,416	537,764
The PRC	233,193	228,451
	<u>807,609</u>	<u>766,215</u>

Non-current assets, other than deferred income tax assets and investments in an associate and joint ventures, by geographical areas are as follows:

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Hong Kong	379,872	373,623
The PRC	180,625	168,027
	<u>560,497</u>	<u>541,650</u>

### 4 REVENUE

The Group's revenue recognised at point in time during the year is as follows:

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
Sale of goods	<u>702,473</u>	<u>775,789</u>

#### (a) Revenue recognition in relation to contract liabilities

As at 31 December 2020 and 2019, contract liabilities included receipts in advance and deferred revenue amounting to HK\$157,298,000 (2019: HK\$162,044,000) and HK\$3,011,000 (2019: HK\$2,693,000) respectively.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward receipts in advance and deferred revenue:

	2020 HK\$'000	2019 HK\$'000
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	<u>164,737</u>	<u>146,686</u>

There is no revenue recognised during the current year (2019: same) related to performance obligations that were satisfied in prior year.

#### (b) Unsatisfied long-term contracts

The Group selected to choose a practical expedient and omit disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

## 5 OTHER INCOME, NET

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Government grants ( <i>Note (a)</i> )	10,300	–
Insurance claim	58	696
Management income	627	–
Service income	1,059	1,700
Exchange difference	343	25
(Losses)/gains on disposal of property, plant and equipment ( <i>Note (b)</i> )	(94)	509
Others	1,119	1,018
	<hr/>	<hr/>
Total other income	<b>13,412</b>	<b>3,948</b>
	<hr/> <hr/>	<hr/> <hr/>

### Notes:

- (a) Government subsidies of HK\$10,300,000 (2019: nil) represented grants from the one-off Retail Sector Subsidy Scheme and Food Licence Holders Subsidy Scheme under Anti-Epidemic Fund launched by the Government of the Hong Kong Special Administrative Region. The Group has complied all attached conditions before 31 December 2020 and recognised in profit or loss in “other income, net”.
- (b) Included in the balance for the year ended 31 December 2019 was a total loss of HK\$12,000 which was derived from the relocation of production plant.

## 6 EXPENSES BY NATURE

	Note	Year ended 31 December	
		2020 HK\$'000	2019 HK\$'000
Cost of inventories sold		199,261	222,018
Lease rental in respect of retail outlets ( <i>Note (a)</i> )			
– Minimum rental		–	19,685
– Contingent rental		394	285
Lease rental in respect of storage spaces and office premises ( <i>Note (a)</i> )		10,613	18,214
Advertising and promotional expenditure		28,724	33,592
Depreciation of property, plant and equipment		34,744	29,563
Depreciation of right-of-use assets		94,388	83,005
Communication and utilities		25,324	33,706
Employee benefit expenses (including directors' emoluments) ( <i>Note (b)</i> )		175,500	238,896
Restructuring costs ( <i>Note (c)</i> )		–	5,300
Provision for obsolete inventories		2	342
Provision for impairment on loan to an associate		625	–
Provision for impairment on amount due from a non-controlling interest		1,000	–
Provision for impairment on trade receivables	11	790	1,875
Write-off of property, plant and equipment		–	165
Legal and professional fees		4,368	4,645
Auditors' remuneration			
– Audit services		2,850	2,850
– Non-audit services		34	390
Tools, repair and maintenance expenses		12,582	8,859
Transportation and distribution expenses		29,145	36,466
Others		21,556	20,029
		641,900	759,885
Total cost of sales, selling and distribution costs, administrative and operating expenses and impairment loss on financial assets			

### Note:

- (a) These expenses included short-term leases expenses of HK\$1,175,000 (2019:HK\$25,018,000), variable leases payment expenses of HK\$2,600,000 (2019:HK\$3,716,000), and other rental-related expenses of HK\$7,232,000 (2019:HK\$9,450,000) for the year ended 31 December 2020.
- (b) Wage subsidies of HK\$35,246,000 (2019: nil) granted from the Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees from June to November 2020 has been received for the year ended 31 December 2020. The amounts of HK\$5,165,000 and HK\$30,081,000 were recognised in “cost of sales” and “administrative and operating expenses” respectively and had been offset against with employee benefit expenses.
- (c) The restructuring costs primarily include termination benefits of HK\$4,418,000 paid to employees as a result of the relocation of production plant for the year ended 31 December 2019.

## 7 FINANCE COSTS, NET

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
<b>Finance income:</b>		
– Interest income	66	81
<b>Finance costs:</b>		
– Interest expenses on borrowings	(2,495)	(2,946)
– Interest and finance charges paid/payable for lease liabilities	(4,761)	(3,829)
	(7,256)	(6,775)
Amount capitalised ( <i>Note</i> )	–	567
	(7,256)	(6,208)
<b>Finance costs, net</b>	<b>(7,190)</b>	<b>(6,127)</b>

*Note:*

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings for the year ended 31 December 2019 of 3.12%.

## 8 INCOME TAX EXPENSE

### Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% for the year ended 31 December 2020 (2019: 16.5%) on the estimated assessable profit for the year.

### PRC Corporate Income Tax

Group entities incorporated in the PRC are subject to Corporate Income Tax (“CIT”) in accordance with the Law of the PRC on Corporate Income Tax (the “CIT Law”). Under the CIT Law, the income tax rate applicable to these subsidiaries is 25% (2019: 25%).

The amount of income tax expense represents:

	Year ended 31 December	
	2020 HK\$'000	2019 HK\$'000
<b>Current tax:</b>		
Hong Kong Profits Tax for the year	2,062	–
PRC CIT for the year	956	255
Over-provision in prior years	–	(1,317)
<b>Deferred income tax</b>	<b>2,445</b>	<b>4,330</b>
<b>Income tax expense</b>	<b>5,463</b>	<b>3,268</b>

## 9 EARNINGS PER SHARE

	Year ended 31 December	
	2020	2019
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	62,530	10,012
Weighted average number of ordinary shares for the calculation of basic earnings per share (thousands)	655,944	655,944
Earnings per share for profit attributable to owners of the Company		
– Basic earnings per share ( <i>HK cents</i> )	<u>9.53</u>	<u>1.53</u>
– Diluted earnings per share ( <i>HK cents</i> )	<u>9.53</u>	<u>1.53</u>

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted earnings per share for the year ended 31 December 2020 and 2019 equal basic earnings per share as there were no potentially dilutive ordinary shares as at both years end.

## 10 DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends attributable to the year		
Proposed final dividend of HK1.96 cents (2019: HK0.46 cent) per ordinary share	12,850	3,017
Proposed special dividend of nil (2019: HK0.38 cent) per ordinary share	–	2,493
Special dividend of HK0.9 cent (2019: nil) per ordinary share paid	<u>5,903</u>	–
	<u>18,753</u>	<u>5,510</u>
Dividends paid during the year		
2019 final and special dividends totalling HK0.84 cent per ordinary share	5,510	–
2020 special dividend of HK0.9 cent per ordinary share	5,903	–
2018 final and special dividends totalling HK0.79 cent per ordinary share	–	5,182
	<u>11,413</u>	<u>5,182</u>

A final dividend of HK1.96 cents per ordinary share amounting to a total of HK\$12,850,000 was proposed by the Board of Directors which has to be approved by shareholders in the forthcoming annual general meeting. This proposed final dividend is not reflected as a dividend payable in the consolidated statement of financial position as at 31 December 2020, but will be reflected as an appropriation of share premium for the year ending 31 December 2021.

Together with a special dividend of HK0.9 cent per ordinary share amounting to a total of HK\$5,903,000 which was paid to the shareholders in September 2020, the total dividends in respect of the year ended 31 December 2020 amounted to HK\$18,753,000 with a dividend payout ratio of 30%.

## 11 TRADE RECEIVABLES

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables from third parties	44,699	50,671
Trade receivables from an associate	980	–
	<u>45,679</u>	<u>50,671</u>
Less: Provision for impairment of trade receivables	(3,241)	(2,451)
	<u>42,438</u>	<u>48,220</u>

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (2019: 30 to 105 days). As at 31 December 2020 and 2019, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Less than 30 days	17,156	15,717
31-90 days	21,561	29,117
Over 90 days	3,721	3,386
	<u>42,438</u>	<u>48,220</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. The trade receivables have been grouped based on the business segments, geographical location, credit risk characteristics and the days past due to provide the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for separate provision for impairment allowance.

Movements on the Group's provision for impairment of trade receivables are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January	2,451	2,310
Provision for impairment of trade receivables ( <i>Note 6</i> )	790	1,875
Receivables written off during the year as uncollectible	–	(1,734)
	<u>3,241</u>	<u>2,451</u>

## 11 TRADE RECEIVABLES (CONTINUED)

The Group does not hold any collateral as security.

The carrying amounts of the trade receivables are denominated in the following currencies:

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	40,798	42,404
RMB	1,640	5,816
	<u>42,438</u>	<u>48,220</u>

## 12 SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares <i>HK\$'000</i>
<b>Authorised:</b> At 1 January 2019, 31 December 2019 and 31 December 2020	1,000,000,000	10,000

	Number of shares	Nominal value of ordinary shares <i>HK\$'000</i>
<b>Issued and fully paid:</b> At 1 January 2019, 31 December 2019 and 31 December 2020	655,944,000	6,559

## 13 TRADE PAYABLES

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	<u>29,078</u>	<u>34,720</u>

As at 31 December 2020, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0 to 30 days	19,232	17,426
31 to 60 days	8,069	9,398
61 to 90 days	591	4,563
Over 90 days	1,186	3,333
	<u>29,078</u>	<u>34,720</u>

### 13 TRADE PAYABLES (CONTINUED)

The carrying amounts of the trade payables are denominated in the following currencies:

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	20,745	20,019
RMB	8,333	14,701
	<u>29,078</u>	<u>34,720</u>

### 14 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Accruals for employee benefit expenses	24,886	17,106
Accruals for marketing and promotional expenses	1,173	1,959
Refund liabilities for sales rebate	4,149	3,216
Rental and related expenses payable	2,554	3,479
Office and utilities expenses payable	1,834	2,869
Deferred revenue	3,011	2,693
Consideration payable for property, plant and equipment acquired	9,659	8,359
Accruals for transportation and delivery charges	2,780	4,639
Accruals for audit fee	2,923	3,106
Other accruals and other payables	21,718	17,301
	<u>74,687</u>	<u>64,727</u>

The carrying amounts of the Group's accruals and other payables are denominated in the following currencies:

	As at 31 December	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
HK\$	53,163	48,412
RMB	21,524	16,315
	<u>74,687</u>	<u>64,727</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The year 2020 was a period of significant challenges for both the Hong Kong and Mainland China retail and wholesale markets, owing to the COVID-19 pandemic that had sweeping and negative effects on the businesses and lives of people around the world. The Group's retail and wholesale performance was inevitably affected by the difficult conditions. 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 consequence of social activities in Hong Kong since the second half of 2019. The extraordinary events of the year saw the Group's revenue contract by 9.5% to HK\$702.5 million (2019: HK\$775.8 million).

As for the Hong Kong retail operation, it recorded a single-digit decline in sales, which was still better than the average decline experienced by many other retailers in the city as suggested by Census and Statistics Department figures, which has provisionally estimated a decline in total retail sales value ("RSV") of 24.3% in 2020 when compared with 2019. 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.

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, which resulted in a decrease in selling and administrative expenses, 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).

The Group remains in a healthy financial position, and has stable operating cash flows. It also holds sufficient cash and cash equivalents as well as unutilised banking facilities, totalling approximately HK\$134.9 million and HK\$92.2 million, respectively, as at 31 December 2020 (31 December 2019: HK\$95.4 million and HK\$42.9 million, respectively).

## BUSINESS SEGMENT ANALYSIS

### Hong Kong Retail

Continuing to be the largest revenue contributor, the Hong Kong retail 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. Consequently, such measures resulted in a decline in footfall, which in turn led to same-store sales decline of a single percentage point. At the same time, major exhibitions and expos (e.g. Hong Kong Brands and Products Expo (“**HKBPE**”), Food Expo) were cancelled or postponed.

More favourably, there was an increase in average transaction value per JIKA CLUB (自家CLUB) member, which helped to partly offset the decrease in customer traffic. 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; receipt of government grants and subsidies for the retail sector and food license holders totalling HK\$10.3 million; and subsidies from ESS.

Amid a weak retail environment, the Group has acted swiftly and resolutely in reinforcing its retail presence in Hong Kong. While no shops were closed due to the impact of the pandemic, as at 31 December 2020, the Group had 119 self-operated shops in the city, which included two Handmade Bakery (嚙麥手作) shops. During the year, three shops were opened along the Tuen Ma Line Phase 1, West Rail Line and East Rail Line, specifically at Hin Keng Station, Nam Cheong Station and Fanling Station. This has enabled the Group to maintain its standing as the largest herbal retailer in Hong Kong based on retail network size.

In the wake of “stay-at-home” and “work-from-home” practices since the outbreak of COVID-19, online retailing and delivery services have increased in popularity. Fittingly, the Group has been serving pre-packaged wholesome food and beverages for decades, hence it was able to outpace many of its retail peers in adapting to the new normal. Leveraging its early-mover advantage and capitalising on recent developments, the Group has allocated greater effort and resources to takeaway food services. This has included co-operating with the foodpanda and Deliveroo online delivery platforms to offer customers a convenient means of enjoying the Group’s products, whether they are at home or at the office. The Group has also launched a new category of Home Made Dishes (自家小菜) to facilitate takeaway cooking. Through the Group’s efforts, bulk purchases and food deliveries requested by corporate clients, charities and government have surged. To sustain growth momentum, the Group has joined online exhibitions, such as the Online HKBPE, so as to further raise awareness of its products and boost sales.

With reference to JIKA CLUB, the Group has sought to boost member engagement through exclusive offers, bulk purchases and top-up promotions. Consequently, despite a decline in store visits by members due to the pandemic, there was an actual rise in average spending per member. In addition, such efforts have helped to increase memberships, which, as at 31 December 2020, had reached 1,020,000 – up by approximately 101,000 members from the last financial year. Yet another means to enhance member convenience is the Hung Fook Tong mobile application (“APP”) through which special discount offers, incentive programmes (e.g. e-stamps), and joint promotions are extended. Indicative of its ability to address customers’ needs, there was an increase in number of downloads and transactions via the APP during the review year.

As the APP has become more popular, the Group has witnessed an increase in uptake of e-coupons by JIKA CLUB members. Consequently, less paper coupons were printed as more redemptions or transactions were conducted electronically.

In view of growing public concerns over health and hygiene due to the pandemic, the Group has recognised the need to remind customers of the importance of a healthy diet to strengthen their health, especially their immune system. This can be achieved, in part, through the Group’s nutritious herbal drinks, soups and food products. The launch of bulk purchase offers have complemented such efforts at raising awareness, and have received good sales response. To further promote public wellbeing, 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 latter is particularly appropriate for those seeking to strengthen their health, such as the elderly, individuals recovering from illness or surgery and postnatal moms. The Joyous Series has achieved satisfactory growth with the addition of the new product.

As at 31 December 2020, 18 HUNG+ Smart Vendor machines were in operation in commercial buildings and residential estates.

## **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, it should be noted that 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 (due mainly to higher efficiency achieved at the Kaiping factory) 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.

## **Hong Kong**

In Hong Kong, revenue of HK\$132.1 million (2019: HK\$135.0 million) was recorded, or a decline of 2.1% year-on-year, and was 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. Furthermore, product expansion has continued with the launch

of the new Detox & Heat Relief Drink (清肺解毒飲) and Isatis Root Drink (板藍根飲品) which deliver health benefits that are responsive to the pandemic. 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.

## **Mainland China**

With regard to the Group's Mainland China wholesale business, it was hit hard by the severing of business ties with the majority of key accounts owing to social activities in Hong Kong in the second half of 2019. Additionally, COVID-19 struck yet another blow to sales derived from major sales channels during the first half year, as the Group's plan to relaunch its products was delayed. Though health measures were gradually lifted in the second half year, key accounts have remained prudent about shelving the Group's products, compounded by fierce industry competition. Such developments have affected the Group's plans to re-launch its products among key accounts nationwide and on online platforms.

Revenue from the Mainland China wholesale business contracted by 63.5% to HK\$21.8 million (2019: HK\$59.7 million), principally due to the aforementioned severing of ties. 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. As such restrictions also occurred during the summer months, which is the peak season for product launches, the impact was felt accordingly. 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.

## **Other Markets**

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. As for Europe, several countries delayed co-operation as the result of COVID-19. 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.

## **Safety and Production Capability**

Food safety and hygiene have always been among the Group's highest priorities. In the face of the pandemic, the Group has continued to uphold the highest standards of hygiene at all of its shops, factories and workplaces, so as to protect customers and staff. Such commitment has also enabled the Group to ensure smooth operations even under the shadow of the pandemic. At the Kaiping factory, except for a slight delay experienced after the Lunar New Year when COVID-19 erupted, operations generally resumed by early March, and subsequently continued seamlessly for the rest of the year. With regard to the Tai Po factory, there was no material impact on its operations due to COVID-19. Enhanced factory cleaning and strict observance of ISO22000 food safety guidelines such as wearing masks, washing hands and sanitising frequently all contributed to its uninterrupted operation. The Group was therefore able to allocate more resources to raising production capacity so as to meet the increased demand for prepacked food.

## **PROSPECTS**

In entering 2021, the world has yet to gain the upper hand over the pandemic, and the global economy looks set to face still more challenges. Hence, those in the retail and wholesale segments will likely continue to endure stiff headwinds. Such a negative outlook is shared by the Hong Kong Retail Management Association which expects retail sales performance in the first half of 2021 to mimic the first half of 2020. Specifically, the Association has projected a drop in RSV ranging from 20% to 30% year-on-year, and as much as 35% if the same period of 2018 was used as the baseline.

Fully mindful of the dire business climate, the Group will continue its focus on agility, having already adhered to a quick-response approach to take advantage of market shifts once signs appear. This approach is also applicable to the issue of health and safety. The management is constantly and closely monitoring pandemic-related developments and has been fully prepared to implement relevant health measures at its shops, factories and offices.

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. Also with customers in mind, the Group will explore more collaborations with relevant brands in a similar vein to partnerships with HKBN Group and Eu Yan Sang, and which can bring success to all parties involved.

## **Hong Kong Retail**

In Hong Kong specifically, the Group will strive to maintain its market leadership, which will include reinforcing its physical presence. Correspondingly, it will strengthen ties with landlords and seek their support not only in terms of rental concessions, but also 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. What is more, in bringing together Western and Chinese food cultures, HFT Life offers visitors an array of products, including baked goods from Handmade Bakery and the Group’s signature additive-free soups. Through HFT Life, the Group aims to deliver a comfortable environment that is conducive to the recharging of body and mind. Already, 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. Also envisaged is the opening of one shop at the Tuen Ma Line, which is expected to be fully operational in 2021.

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. The Group will also launch new essence products in 2021 that will expand the Joyous Series. In addition, a new frozen food series featuring shao mai, curry fish balls and other delicious snacks will be introduced that perfectly align with the greater time that people are now spending at home due to movement restrictions.

While promotion efforts have been part and parcel of the Group’s business strategy, this will take on added meaning in 2021 as the Group celebrates its 35th anniversary. Greater effort in raising brand awareness will be the main objective during this important occasion, complemented by corresponding offers and promotions.

Still other important pursuits will include strengthening the Group’s presence online and in the digital realm. Towards such objectives, it will continue to promote e-coupons to members, corporate clients and online resellers. At the same time, the Group 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. Efforts will also be placed on increasing brand exposure, hence the Group will participate in more online expos and events, such as Online BB expo, Online HKBPE, etc. as well as offline events that were previously cancelled or postponed due to the pandemic.

## **Wholesale**

With respect to the wholesale business, and specifically 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. Regardless of whether the pandemic takes a turn for better or worse, the Group is determined to strengthen its online sales and presence. The Group will also continue to bolster its product portfolio, which includes engaging 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.

As for other markets, the Group will continue its efforts to introduce fresh drink products to Singapore and South Korea. In Taiwan and Malaysia, the Group will participate in product collaborations so as to strengthen its presence in these markets. This follows the successful model employed last year between Hung Fook Tong and KAKAO FRIENDS in tapping supermarkets in Taiwan.

## **CONCLUSION**

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.

With Hung Fook Tong's strong brand recognition built over three decades; wide spectrum of wholesome products and advanced technologies; leadership in the wellness food and beverage sectors; and unwavering support from stakeholders, the Group is well-prepared and capable of overcoming whatever conditions that may arise in the coming year.

## **FINANCIAL REVIEW**

### **Revenue**

For the year ended 31 December 2020, the Group's revenue amounted to HK\$702.5 million, representing a decrease of 9.5% from HK\$775.8 million in 2019. Both Hong Kong retail and wholesales business experienced a decline in revenue to HK\$548.6 million and HK\$153.9 million respectively, representing a decrease of 5.6% from HK\$581.1 million and 21.0% from HK\$194.7 million in 2019, as a result of the COVID-19 outbreak and global economic slowdown.

### **Cost of Sales**

For the year ended 31 December 2020, the Group's cost of sales amounted to HK\$254.7 million, representing a decrease of 11.3% from HK\$287.1 million in 2019. As a percentage of revenue, cost of sales represented 36.3% and 37.0% in 2020 and 2019 respectively.

### **Gross Profit and Gross Profit Margin**

For the year ended 31 December 2020, the Group's gross profit amounted to HK\$447.8 million, representing a decrease of 8.4% from HK\$488.7 million in 2019. Despite a decrease in gross profit, the Group's gross profit margin increased by 0.7 percentage point to 63.7% as compared with 63.0% in 2019 due to effective cost control measures with continuous enhancement in supply chain management and improvement in the sales mix.

### **Staff Costs**

For the year ended 31 December 2020, the Group's staff costs amounted to HK\$175.5 million, representing a decrease of 26.5% from HK\$238.9 million in 2019. The decrease was mainly due to a decrease in the number of headcounts and the receipt of government grant from the Employment Support Scheme. The staff costs-to-revenue ratio is 25.0% as compared with 30.8% in 2019.

## **Rental Expenses**

For the year ended 31 December 2020, rental expenses in relation to its retail shops in Hong Kong (being the aggregate of lease rental in respect of retail outlets, depreciation of right-of-use assets for shop properties and the interest expense arisen from lease liabilities) amounted to HK\$97.9 million, representing a decrease of 6.9% from HK\$105.2 million in 2019. The decrease was mainly due to concessions from certain landlords resulting in more affordable rental rates. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 17.8% as compared to 18.1% in 2019.

## **Advertising and Promotion Expenses**

For the year ended 31 December 2020, the Group's advertising and promotion expenses amounted to HK\$28.7 million, representing a decrease of 14.5% from HK\$33.6 million in 2019. This accounted for 4.1% and 4.3% of revenue in 2020 and 2019 respectively.

## **Depreciation**

For the year ended 31 December 2020, the depreciation of property, plant and equipment of the Group amounted to HK\$34.7 million, representing an increase of 17.5% from HK\$29.6 million in 2019. This accounted for 4.9% and 3.8% respectively in percentage to revenue in 2020 and 2019.

## **Net Profit**

Profit attributable to owners of the Company for the year ended 31 December 2020 was HK\$62.5 million, representing an increase of 524.6% from HK\$10.0 million in 2019. The net profit margin (calculated as profit for the period as a ratio of revenue) for the year ended 31 December 2020 was 8.9%, as compared to 1.3% in 2019.

Earnings per share for profit attributable to owners of the Company for the year ended 31 December 2020 amounted to HK9.53 cents, as compared to HK1.53 cents in 2019.

## **Capital Expenditure**

During the year ended 31 December 2020, capital expenditure amounted to HK\$28.5 million (2019: HK\$53.0 million). This amount was mainly used for the opening of new shops, revamping of existing retail shops and acquisition of production facilities in Mainland China and Tai Po plants.

## **Liquidity and Financial Resources Review**

As at 31 December 2020, the Group had bank deposits and cash balance amounted to HK\$134.9 million (31 December 2019: HK\$95.4 million).

As at 31 December 2020, the gearing ratio of the Group was 0.12 (31 December 2019: 0.34), which was calculated based on total bank borrowings divided by equity attributable to owners of the Company.

As at 31 December 2020, the Group had total banking facilities of HK\$135.6 million (31 December 2019: HK\$137.8 million) of which HK\$43.4 million (31 December 2019: HK\$94.9 million) had been utilised.

As at 31 December 2020, the Group's current liabilities exceeded its current assets by HK\$136.8 million (31 December 2019: HK\$142.9 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons to customers in Hong Kong of HK\$157.3 million (31 December 2019: HK\$156.3 million) which will reduce gradually over the time of each redemption by customers and are not expected to be settled by cash under normal business circumstances. Excluding the aforementioned receipts in advance, the Group would have net current assets of HK\$20.5 million (31 December 2019: HK\$13.3 million) and current ratio of 1.09 (31 December 2019: 1.06).

We aim to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable us to continue our business in a manner consistent with the short-term and long-term financial strategies of the Group.

### **Foreign Currency Risk**

Our Group operates mainly in Hong Kong and Mainland China and conducts our business primarily in Hong Kong dollars and RMB. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB. The Group will continue to take proactive measures and monitor closely of its exposure to such currency movement.

### **Material Acquisitions, Disposals and Significant Investments**

Except for the below investment, there were no material acquisitions, disposals and significant investments during the financial year ended 31 December 2020.

As at 31 December 2020, the Group has entered into a joint venture and shareholders agreement with other investors for the investment in a Hong Kong incorporated company which engaged in the provision of e-commerce business in Hong Kong. The Group shall subscribe for 10,000,000 ordinary shares in the investee at a cash consideration of HK\$10,000,000 with initial subscription being 5,000,000 shares at HK\$5,000,000. However, the Group is entitled to elect to subscribe less than 10,000,000 shares and in which case, the Group's shareholding in the investee will be diluted accordingly.

### **Contingent Liabilities**

Taclon Industries Limited, a wholly-owned subsidiary of the Company, has several pending litigations and claims with its former employees which the Directors consider an outflow of resources is not probable.

### **Human Resources**

As at 31 December 2020, the Group employed approximately 891 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on years of service and performance appraisal.

During the year ended 31 December 2020, various training activities, such as orientation on retail shop and back office operations, customer services and sales skills, product knowledge and retail operations, have been conducted to improve the quality of frontline services, as well as enhance customer experience and to ensure the smooth and effective operation of the Point-of-Sales ("POS") system. A supervisor trainee program was also implemented to attract production talents, enhancing the leadership skills of the participants including their professional and managerial techniques as well as their knowledge in machinery monitoring and production processes.

## OTHER INFORMATION

### Dividends

A final dividend in respect of the year ended 31 December 2020 of HK1.96 cents per ordinary share was proposed by the Board. The proposed final dividend, amounted to a total of HK\$12,850,000, has to be approved by shareholders in the forthcoming annual general meeting (“AGM”). The proposed final dividend is not reflected as dividend payable in the consolidated statement of financial position as at 31 December 2020, but will be reflected as an appropriation of share premium for the year ending 31 December 2021.

Subject to the approval of the shareholders at the forthcoming AGM, the final dividend will be payable on or about Monday, 12 July 2021 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Tuesday, 15 June 2021.

### Closure of Register of Members

For determining the entitlement to attend and vote at the AGM to be held on Friday, 4 June 2021, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Friday, 4 June 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 31 May 2021.

For determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 11 June 2021 to Tuesday, 15 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend as stated, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Branch Share Registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 10 June 2021.

### Corporate Governance Code

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the year ended 31 December 2020.

### Model Code for Securities Transactions

The Company has adopted a code of conduct (the “**Code of Conduct**”) based on the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “**Model Code**”). For the year ended 31 December 2020, all of the Directors confirmed that they have complied with the required standards set out in the Code of Conduct.

## **Purchase, Sale or Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2020.

## **Audit Committee**

The Company has established an audit committee (the “**Audit Committee**”) which currently consists of all three independent non-executive directors of the Company with written terms of reference which deal clearly with its authority and duties.

The Group's annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee.

## **Scope of Work of PricewaterhouseCoopers**

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position, and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## **Publication of Annual Report**

The annual report for the year ended 31 December 2020 containing all relevant information required by the Listing Rules will be despatched to shareholders of the Company and published on the designated website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.hungfooktong.com](http://www.hungfooktong.com)) in due course.

On behalf of the Board of  
**Hung Fook Tong Group Holdings Limited**  
**TSE Po Tat**  
*Chairman and Executive Director*

Hong Kong, 29 March 2021

*As at the date of this announcement, the Board comprises Mr. Tse Po Tat, Dr. Szeto Wing Fu and Ms. Wong Pui Chu as executive Directors; and Mr. Kiu Wai Ming, Prof. Sin Yat Ming and Mr. Andrew Look as independent non-executive Directors.*