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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 2021**

#### **HIGHLIGHTS**

- Revenue for the year ended 31 December 2021 (“**2021**”) decreased by 0.9% to HK\$696.0 million from HK\$702.5 million for the year ended 31 December 2020 (“**2020**”).
  - Revenue from retail business decreased by 4.3% to HK\$525.1 million, with a retail network comprising 122 retail shops in Hong Kong as at 31 December 2021.
  - Revenue from wholesale business increased by 11.0% to HK\$170.9 million.
- Gross profit for 2021 decreased by 6.8% to HK\$417.3 million from HK\$447.8 million in 2020, while gross profit margin for 2021 decreased by 3.7 percentage points to 60.0% as compared to 63.7% in 2020.
- Profit attributable to owners of the Company for 2021 decreased by 86.8% to HK\$8.2 million (2020: HK\$62.5 million).
- Earnings per share for profit attributable to owners of the Company for 2021 was HK1.25 cents (2020: HK9.53 cents).
- Proposed 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 paid in September 2020, totalling HK2.86 cents 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 2021 together with comparative figures for the previous financial year 2020 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

		Year ended 31 December	
		2021	2020
	Note	HK\$'000	HK\$'000
Revenue	3,4	695,996	702,473
Cost of sales	6	(278,723)	(254,653)
<b>Gross profit</b>		<b>417,273</b>	447,820
Other income, net	5	7,398	13,412
Selling and distribution costs	6	(62,998)	(71,365)
Administrative and operating expenses	6	(347,908)	(313,467)
Reversal of/(provision for) impairment loss on financial assets	6	625	(2,415)
<b>Operating profit</b>		<b>14,390</b>	73,985
Finance income	7	87	66
Finance costs	7	(4,972)	(7,256)
Finance costs, net	7	(4,885)	(7,190)
Share of losses of an associate and a joint venture accounted for using the equity method		(6)	(19)
<b>Profit before income tax</b>		<b>9,499</b>	66,776
Income tax expense	8	(2,357)	(5,463)
<b>Profit for the year</b>		<b>7,142</b>	61,313
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		8,223	62,530
Non-controlling interests		(1,081)	(1,217)
		<b>7,142</b>	61,313

	<b>Year ended 31 December</b>	
	<b>2021</b>	<b>2020</b>
<i>Note</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Other comprehensive income:</b>		
<i>Item that may be reclassified to profit or loss</i>		
– Currency translation differences	<u>6,302</u>	<u>12,941</u>
<b>Other comprehensive income, net of tax</b>	<u>6,302</u>	<u>12,941</u>
<b>Total comprehensive income for the year</b>	<u>13,444</u>	<u>74,254</u>
<b>Total comprehensive income/(loss) attributable to:</b>		
Owners of the Company	14,459	75,328
Non-controlling interests	<u>(1,015)</u>	<u>(1,074)</u>
	<u>13,444</u>	<u>74,254</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>1.25</u>	<u>9.53</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2021**

		<b>As at 31 December</b>	
		<b>2021</b>	<b>2020</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>306,324</b>	310,348
Right-of-use assets		<b>193,454</b>	213,571
Financial asset at fair value through other comprehensive income	<i>11</i>	<b>5,000</b>	–
Intangible assets		<b>2,604</b>	–
Investments in an associate and a joint venture	<i>12</i>	<b>30</b>	36
Prepayments and deposits		<b>29,334</b>	36,578
Deferred income tax assets		<b>12,207</b>	14,891
		<u><b>548,953</b></u>	<u>575,424</u>
<b>Current assets</b>			
Inventories		<b>53,482</b>	46,047
Trade receivables	<i>13</i>	<b>46,345</b>	42,438
Prepayments, deposits and other receivables		<b>42,691</b>	32,225
Amount due from a related company		–	690
Prepaid tax		<b>5,919</b>	2,798
Cash and cash equivalents		<b>116,676</b>	134,905
		<u><b>265,113</b></u>	<u>259,103</u>
<b>Total assets</b>		<u><b>814,066</b></u>	<u>834,527</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	<i>14</i>	<b>6,559</b>	6,559
Reserves		<b>330,642</b>	329,040
		<u><b>337,201</b></u>	<u>335,599</u>
<b>Non-controlling interests</b>		<u><b>(2,240)</b></u>	<u>(991)</u>
<b>Total equity</b>		<u><b>334,961</b></u>	<u>334,608</u>

		As at 31 December	
		2021	2020
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities		59,028	81,077
Provision for reinstatement costs		4,616	5,268
Deferred income tax liabilities		8,804	9,457
Bank borrowings		17,631	8,213
		<u>90,079</u>	<u>104,015</u>
<b>Current liabilities</b>			
Trade payables	<i>15</i>	36,782	29,078
Accruals and other payables	<i>16</i>	57,541	74,687
Provision for reinstatement costs		3,469	2,437
Receipts in advance		177,021	157,298
Lease liabilities		90,521	94,705
Bank borrowings		22,069	33,386
Taxation payable		1,623	4,313
		<u>389,026</u>	<u>395,904</u>
<b>Total liabilities</b>		<u>479,105</u>	<u>499,919</u>
<b>Total equity and liabilities</b>		<u>814,066</u>	<u>834,527</u>
<b>Net current liabilities</b>		<u>(123,913)</u>	<u>(136,801)</u>
<b>Total assets less current liabilities</b>		<u>425,040</u>	<u>438,623</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, except for certain financial instruments that are measured at fair values at the end of each reporting period.

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\$123,913,000 as at 31 December 2021 (2020: HK\$136,801,000). The directors of the Company have reviewed the Group’s cash flow projections, which cover a period of 12 months from 31 December 2021. 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 2021. 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 adopted by the Group

The Group has applied the following amendments to standards for the first time for their annual reporting period commencing 1 January 2021:

HKFRS 16 (Amendments)	Covid-19 Related Rent Concessions
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2

The Group has adopted HKFRS 16 (Amendments) – Covid-19-Related Rent Concessions retrospectively from 1 January 2021. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021; and c) there is no substantive change to other terms and conditions of the lease.

The Group has not elected to apply the optional practical expedient to all qualifying COVID-19-related rent concessions, and all the COVID-19-related rent concessions were consistently accounted for as lease modification in accordance with HKFRS 16.

The above newly adopted amendments to existing standards did not have any impact on the results and financial position of the Group.

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

### 2.2 Summary of significant accounting policies (Continued)

*(b) New and amended standards, improvements, interpretation and accounting guideline not yet adopted*

The following new standard, amendments to existing standards, improvements, interpretation and accounting guideline have been issued but are not effective for the financial year beginning on or after 1 January 2021 and have not been early adopted:

		<b>Effective for annual periods beginning on or after</b>
Annual Improvements Project	Annual Improvements to HKFRSs Standards 2018 – 2020	1 January 2022
Amendments to HKFRS 3, HKAS 16, and HKAS 37 Accounting	Narrow-scope Amendments	1 January 2022
Guideline 5 (Amendments)	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 HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	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, improvements, 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, improvements, interpretation and accounting guideline, none of which is expected to have material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 3 SEGMENT INFORMATION

The segment information provided to the executive directors for the years ended 31 December 2021 and 2020 is as follows:

	Year ended 31 December 2021		
	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
<b>Segment revenue</b>	<b>534,656</b>	<b>179,030</b>	<b>713,686</b>
Less: Inter-segment revenue	(9,532)	(8,158)	(17,690)
Revenue from external customers	<u>525,124</u>	<u>170,872</u>	<u>695,996</u>
<b>Segment results</b>	<b>31,090</b>	<b>23,668</b>	<b>54,758</b>
Corporate expenses			(40,993)
Share of losses of an associate and a joint venture accounted for using the equity method			(6)
Reversal of impairment on loan to an associate			625
Finance costs, net			<u>(4,885)</u>
Profits before income tax			<b>9,499</b>
Income tax expense			<u>(2,357)</u>
<b>Profit for the year</b>			<b>7,142</b>
<b>Other segment items:</b>			
Capital expenditure	22,311	8,316	30,627
Depreciation and amortisation	118,906	14,531	133,437
Losses on disposal of property, plant and equipment	127	10	137
	<u>127</u>	<u>10</u>	<u>137</u>
	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			66,776
Income tax expense			<u>(5,463)</u>
<b>Profit for the year</b>			<b>61,313</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	446	344	790
	<u>446</u>	<u>344</u>	<u>790</u>

### 3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 31 December 2021 and 2020 are as follows:

	<b>Hong Kong Retail HK\$'000</b>	<b>Wholesale HK\$'000</b>	<b>Elimination HK\$'000</b>	<b>Total HK\$'000</b>
<b>As at 31 December 2021</b>				
<b>Segment assets</b>	501,114	271,449	(392)	772,171
Investment in a joint venture				30
Financial asset at fair value through other comprehensive income				5,000
Prepaid tax				5,919
Deferred income tax assets				12,207
Corporate assets				18,739
<b>Total assets</b>				<b>814,066</b>
<b>As at 31 December 2020</b>				
<b>Segment assets</b>	526,938	281,100	(429)	807,609
Amount due from a related company				690
Investments in an associate and a joint venture				36
Prepaid tax				2,798
Deferred income tax assets				14,891
Corporate assets				8,503
<b>Total assets</b>				<b>834,527</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 2021, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2020: 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>2021</b>	<b>2020</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong	656,348	669,443
The PRC	26,596	21,808
Overseas countries	13,052	11,222
	<b>695,996</b>	<b>702,473</b>

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2021 and 2020.

### 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	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong	555,269	574,416
The PRC	216,902	233,193
	<u>772,171</u>	<u>807,609</u>

Non-current assets, other than deferred income tax assets, investments in an associate and a joint venture and financial asset at fair value through other comprehensive income ("FVOCI"), by geographical areas are as follows:

	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
Hong Kong	355,561	379,872
The PRC	176,155	180,625
	<u>531,716</u>	<u>560,497</u>

### 4 REVENUE

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

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Sale of goods	<u>695,996</u>	<u>702,473</u>

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

As at 31 December 2021 and 2020, contract liabilities included receipts in advance and deferred revenue amounting to HK\$177,021,000 (2020: HK\$157,298,000) and HK\$1,765,000 (2020: HK\$3,011,000) 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:

	2021	2020
	HK\$'000	HK\$'000
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	<u>160,309</u>	<u>164,737</u>

There is no revenue recognised during the current year (2020: 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	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Government grants ( <i>Note (a)</i> )	1,400	10,300
Insurance claim	216	58
Management income from an associate	723	627
Service income ( <i>Note (b)</i> )	4,267	1,059
Exchange difference	(146)	343
Losses on disposal of property, plant and equipment	(137)	(94)
Others	1,075	1,119
	<hr/>	<hr/>
Total other income	<b>7,398</b>	<b>13,412</b>
	<hr/> <hr/>	<hr/> <hr/>

### *Notes:*

- (a) Government subsidies of HK\$1,400,000 were granted from the Catering Business Subsidy Scheme (2020: HK\$10,300,000 from the one-off Retail Sector Subsidy Scheme and the 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 the respective period end date and recognised in in consolidated statement of comprehensive income.
- (b) The Group has entered into a cooperation agreement with an independent third party for the provision of marketing distribution services for year ended 31 December 2021 at HK\$4,000,000 (2020: nil). The service income is recognised when the related services are rendered.

## 6 EXPENSES BY NATURE

	Note	Year ended 31 December	
		2021 HK\$'000	2020 HK\$'000
Cost of inventories sold		215,666	199,261
Lease rental in respect of retail outlets ( <i>Note (a)</i> )			
– Contingent rental		447	394
Lease rental in respect of storage spaces and office premises ( <i>Note (a)</i> )		11,688	10,613
Advertising and promotional expenditure		19,627	28,724
Depreciation of property, plant and equipment		36,294	34,744
Depreciation of right-of-use assets		97,143	94,388
Communication and utilities		29,193	25,324
Employee benefit expenses (including directors' emoluments)		208,935	175,500
(Reversal of)/provision for obsolete inventories		(19)	2
(Reversal of)/provision for impairment on loan to an associate		(625)	625
Provision for impairment on amount due from a non-controlling interest		–	1,000
Provision for impairment on trade receivables	13	–	790
Legal and professional fees		4,418	4,368
Auditors' remuneration			
– Audit services		2,861	2,850
– Non-audit services		–	34
Tools, repair and maintenance expenses		11,300	12,582
Transportation and distribution expenses		31,716	29,145
Others		20,360	21,556
		689,004	641,900
Total cost of sales, selling and distribution costs, administrative and operating expenses and reversal of/(provision for) impairment loss on financial assets			

### Note:

- (a) These expenses included short-term leases expenses of HK\$1,112,000 (2020: HK\$1,175,000), variable leases payment expenses of HK\$2,226,000 (2020: HK\$2,600,000), and other rental-related expenses of HK\$8,797,000 (2020: HK\$7,232,000) for the year ended 31 December 2021.

7 **FINANCE COSTS, NET**

	<b>Year ended 31 December</b>	
	<b>2021</b>	2020
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Finance income:</b>		
– Interest income	<u>87</u>	<u>66</u>
<b>Finance costs:</b>		
– Interest expenses on borrowings	(581)	(2,495)
– Interest and finance charges paid/payable for lease liabilities	<u>(4,391)</u>	<u>(4,761)</u>
	<u>(4,972)</u>	<u>(7,256)</u>
<b>Finance costs, net</b>	<u><b>(4,885)</b></u>	<u><b>(7,190)</b></u>

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 2021 (2020: 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% (2020: 25%).

The amount of income tax expense represents:

	<b>Year ended 31 December</b>	
	<b>2021</b>	2020
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Current tax:</b>		
Hong Kong Profits Tax for the year	–	2,062
PRC CIT for the year	<b>1,207</b>	956
Over-provision in prior years	<b>(987)</b>	–
<b>Deferred income tax</b>	<u><b>2,137</b></u>	<u>2,445</u>
<b>Income tax expense</b>	<u><b>2,357</b></u>	<u><b>5,463</b></u>

## 9 EARNINGS PER SHARE

	Year ended 31 December	
	2021	2020
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	8,223	62,530
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>1.25</u>	<u>9.53</u>
– Diluted earnings per share ( <i>HK cents</i> )	<u>1.25</u>	<u>9.53</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 2021 and 2020 equal basic earnings per share as there were no potentially dilutive ordinary shares as at both years end.

## 10 DIVIDENDS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Dividends attributable to the year		
Proposed final dividend of HK0.37 cent (2020: HK1.96 cents) per ordinary share	2,427	12,850
Proposed special dividend of HK0.31 cent (2020: nil) per ordinary share	2,033	–
Special dividend of nil (2020: HK0.90 cent) per ordinary share paid	–	5,903
	<u>4,460</u>	<u>18,753</u>
Dividends paid during the year		
2019 final and special dividends totalling HK0.84 cent per ordinary share	–	5,510
2020 special dividend of HK0.90 cent per ordinary share	–	5,903
2020 final dividend of HK1.96 cents per ordinary share	12,857	–
	<u>12,857</u>	<u>11,413</u>

A final dividend and a special dividend of HK0.37 cent and HK0.31 cent per ordinary share, respectively amounting to a total of HK\$4,460,000 were proposed by the Board of Directors which have to be approved by shareholders in the forthcoming annual general meeting. These proposed dividends are not reflected as a dividend payable in the consolidated statement of financial position as at 31 December 2021, but will be reflected as an appropriation of share premium for the year ending 31 December 2022.

## 11 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity investments at fair value through other comprehensive income

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
Unlisted equity investment	<u>5,000</u>	<u>–</u>

As at 31 December 2020, the Group has entered into a joint venture and shareholders agreement with other investors for the formation of HomePlus Holding Limited, a Hong Kong incorporated company which engaged in the provision of e-commerce business in Hong Kong. The investee is incorporated on 30 March 2021 and the Group shall subscribe 10,000,000 ordinary shares in the investee at a cash consideration of HK\$10,000,000 with initial subscription being 5,000,000 ordinary shares at HK\$5,000,000. However, the Group is entitled to elect to subscribe less than 10,000,000 shares after the initial subscription and in which case, the Group's shareholding in the investee will be diluted accordingly. Management has taken into consideration of the Group's representative on the board of directors in the investee and considered that the Group has significant influence in the investee. Therefore, it was classified as an associate since the initial subscription.

On 4 May 2021, the Group's representative resigned from the board of directors of the investee, and management confirmed to the co-investors and the co-investors have acknowledged that the Group will not appoint any replacement after the resignation of its representative. In addition, the Group has exercised its rights of dilution and elected not to subscribe to the second subscription. Management considered that the Group ceased to have significant influence over the investee and the investment is not held for trading, the Group has irrevocably elected to recognise the investment as FVOCI since 4 May 2021.

The Group has engaged AVISTA Valuation Advisory Limited, an independent professional qualified valuer, to assist management to determine the fair value of the equity investment as of 4 May 2021, being the date of initial recognition, and 31 December 2021. The fair value of the financial asset at FVOCI was measured at level 3 of fair value hierarchy.

## 12 INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
Investments in an associate and a joint venture	<u>30</u>	<u>36</u>

	Year ended 31 December	
	2021	2020
	HK\$'000	HK\$'000
As 1 January	36	55
Capital injection	5,000	–
Share of losses of an associate and a joint venture	(6)	(19)
Transfer to financial assets at FVOCI ( <i>Note 11</i> )	<u>(5,000)</u>	<u>–</u>
As 31 December	<u>30</u>	<u>36</u>

## 12 INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE (CONTINUED)

### Notes:

- (a) The Group's associate and joint venture are unlisted corporate entities whose quoted market prices are not available.
- (b) There are no contingent liabilities relating to the Group's investment in the associate and the joint venture and these entities also had no material contingent liabilities.
- (c) During the year ended 31 December 2021, HomePlus (Hong Kong) Limited has completed the restructuring and become a wholly-owned subsidiary of HomePlus Holding Limited. After the restructuring, the Group directly owns 5% equity interests in HomePlus Holding Limited and classifies it as financial asset at FVOCI.

## 13 TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
Trade receivables from third parties	46,512	44,699
Trade receivables from a related party and an associate	376	980
	<u>46,888</u>	<u>45,679</u>
Less: Provision for impairment of trade receivables	(543)	(3,241)
	<u>46,345</u>	<u>42,438</u>

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (2020: 30 to 105 days). As at 31 December 2021 and 2020, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2021	2020
	HK\$'000	HK\$'000
Less than 30 days	19,001	17,156
31-90 days	23,280	21,561
Over 90 days	4,064	3,721
	<u>46,345</u>	<u>42,438</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 locations and credit risk characteristics 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.

### 13 TRADE RECEIVABLES (CONTINUED)

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	3,241	2,451
Provision for impairment of trade receivables ( <i>Note 6</i> )	–	790
Receivables written off during the year as uncollectible	<u>(2,698)</u>	<u>–</u>
<b>At 31 December</b>	<b><u>543</u></b>	<b><u>3,241</u></b>

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	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
HK\$	43,527	40,798
RMB	<u>2,818</u>	<u>1,640</u>
	<b><u>46,345</u></b>	<b><u>42,438</u></b>

### 14 SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares <i>HK\$'000</i>
<b>Authorised:</b>		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>1,000,000,000</u>	<u>10,000</u>
<b>Issued and fully paid:</b>		
At 1 January 2020, 31 December 2020 and 31 December 2021	<u>655,944,000</u>	<u>6,559</u>

### 15 TRADE PAYABLES

	As at 31 December	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	<u>36,782</u>	<u>29,078</u>

## 15 TRADE PAYABLES (CONTINUED)

As at 31 December 2021 and 2020, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	19,082	19,232
31 to 60 days	10,502	8,069
61 to 90 days	4,469	591
Over 90 days	2,729	1,186
	<u>36,782</u>	<u>29,078</u>

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

	As at 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	21,380	20,745
RMB	15,402	8,333
	<u>36,782</u>	<u>29,078</u>

## 16 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals for employee benefit expenses	17,898	24,886
Accruals for marketing and promotional expenses	2,256	1,173
Refund liabilities for sales rebate	3,548	4,149
Rental and related expenses payable	2,917	2,554
Office and utilities expenses payable	3,539	1,834
Deferred revenue	1,765	3,011
Consideration payable for property, plant and equipment acquired	6,890	9,659
Accruals for transportation and delivery charges	2,571	2,780
Accruals for audit fee	2,287	2,923
Other accruals and other payables	13,870	21,718
	<u>57,541</u>	<u>74,687</u>

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

	As at 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	43,923	53,163
RMB	13,618	21,524
	<u>57,541</u>	<u>74,687</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the past 2021 financial year, the dark cloud of the COVID-19 pandemic continued to hang over the Hong Kong retail market, causing 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%). The decline was 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).

Given the Group's sound fundamentals, 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).

The Group remains in a healthy financial position and has stable operating cash flows. It possesses sufficient cash and cash equivalents as well as unutilised banking facilities, amounting to approximately HK\$116.7 million and HK\$72.2 million, respectively, as at 31 December 2021 (31 December 2020: HK\$134.9 million and HK\$92.2 million, respectively).

### BUSINESS SEGMENT ANALYSIS

#### Hong Kong Retail

Constituting the Group's principal revenue contributor, the Hong Kong retail business 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. Moreover, a modest price adjustment was made during the second half year to partly offset higher production costs. This adjustment impacted on the number of transactions to a certain degree. Furthermore, while a number of expos resumed in 2021, including Hong Kong Brands and Products Expo and Food Expo, the sales derived from such events were lower as visitor traffic fell in the wake of strict social-distancing rules.

The retail segment also experienced a decline in profit, dropping by 71.7% to HK\$31.1 million (2020: HK\$109.8 million). The decline was mainly due to several factors, including i) the offering of deep promotional discounts; ii) an increase in raw material, labour and rental costs; iii) an increase in utility, advertising and promotion expenses; and iv) a significant drop in government grants received or receivable as part of pandemic relief measures.

The Group has continued to direct efforts towards expanding the retail business and enhancing brand recognition. In line with these objectives, it has maintained a robust store network, comprising 122 self-operated shops in Hong Kong as at 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 respectively, the Group has reinforced its standing as the largest herbal retailer in Hong Kong in terms of retail network size.

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 (嚙麥手作), salad, coffee, organic oatmeal and fruit tea, along with the Group’s signature soups and drinks, which epitomise the “HFT Life” ethos of offering an amalgam of Western and Chinese food cultures. Such diverse yet healthy offerings thus enable the Group to broaden its customer base to include younger urbanites. Moreover, the openings of the “HFT Life” stores also allow the Group to extend its reach to new parts of the city, such as Happy Valley and Cyberport. Moreover, the two-storey “HFT Life” shop in Happy Valley also serves as a community space for local communities, social enterprises and non-governmental organisations.

On the product front, the Group has further expanded its offerings, with an eye on accommodating the growing demand for a healthy diet and the new normal of “stay-at-home” and “work-from-home”. With respect to the Joyous Series (自家喜慶系列), Cordyceps Organic Chicken Essence (野生冬蟲夏草有機滴雞精) was added to the chicken essence line in January 2021 as a more premium alternative for customers seeking to strengthen their immune system. Also, a new Clam Essence (黃金蜆精) was introduced in October 2021 to appeal to male customers concerned with strengthening their liver function. In view of the rising need to remain at home, more homemade dishes (自家小菜), snack options (自家小食) and easy-to-cook bulk pack frozen products were launched during the financial year, which are easy to prepare and conducive to meals at home.

A number of seasonal delights were unveiled as well to drive retail sales. In partnership with SunnyHills (微熱山丘), a popular Taiwan brand, the Group launched the “FORBIDDEN” Durian Mooncake Series along with other popular pastries in July 2021. Ahead of the festive Christmas and Chinese New Year holiday seasons, Cookies Gift Box with Cookies Quartet (曲奇四重奏), Chinese New Year Gift Hamper comprising an assortment of the Group’s healthy products, and various luxurious pre-packaged dishes (鴻福珍品系列) for new year home meals were introduced.

Besides bolstering the various product series, the Group sought to directly promote customer consumption and raise brand awareness. In view of the government’s Consumption Voucher Scheme – running from August 2021, special high-spending offers were introduced to capitalise on the scheme, resulting in good sales response. Moreover, Mr. Alfred Hui (許廷鏗), brand ambassador of the Group, was engaged in various advertising campaigns to promote new essence products. As a consequence, the Joyous Series achieved encouraging sales growth. And to leverage the 35th anniversary of Hung Fook Tong, discount promotions involving HK\$35 offers were employed, leading to higher transactions.

On the JIKA CLUB (自家 CLUB) front, further inroads have been made in the areas of membership and engagement. As at 31 December 2021, membership exceeded 1,159,000, or an increase of approximately 135,000 members over the preceding year. What is more, the Hung Fook Tong mobile application (“APP”) has also experienced increased take-up, with the number of downloads continuing to rise steadily. It is worth noting as well that over 17% of all member transactions were completed via the APP with the use of the “JIKA PAY” electronic membership card. Adding to the appeal of the APP are enhanced features, including E-Gifting which allows the user to use e-coupons as digital red packets and as gifts for other occasions.

Also on the digital front, the Group launched the “JIKA 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.

As at 31 December 2021, the Group continued to operate 18 HUNG+ Smart Vendor machines in commercial buildings and residential estates.

## **Wholesale**

During the financial year, 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.

## **Hong Kong**

The Hong Kong wholesale operation 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 which include yuehwa.com (裕華網店), Citistore online (千色網店), Bonjour HKMall Online Shop (卓悅香港貓網購平台), Alipay (支付寶) mobile application and other smaller e-shops.

In driving top-line growth, the Group has further expanded the wholesale product line-up. Among the new drinks introduced during the financial year 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. Yet another endeavour involved the introduction of a new “Fritillaria Cirrhosa Platycodon Honey Drink” (川貝桔梗蜂蜜), which is a playful and nourishing drink that draws inspiration from a herbal recipe featured in a classic Hong Kong comedy.

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.

## **Mainland China**

The wholesale operation in Mainland China saw a return of fortunes, with 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 its wholesale operations, and in particular, 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.

## **Other Markets**

The overseas markets were still severely impacted by COVID-19 lockdown measures during the financial year. Such measures also led to greater transportation costs to these markets, and as a result, sales from Australia, Canada, Malaysia, the United States, etc. were lacklustre. Plans to tap into South Korea and Thailand have been suspended due to the pandemic.

Nonetheless, the Group was able to tap new markets, which included the United Kingdom where shipments commenced in the second half year, and discussions continue with potential distributors in Singapore.

## **Safety and Production Capability**

The Group has always attached tremendous importance to personal hygiene and food safety, and since the outbreak of COVID-19, it has stepped up efforts to protect the well-being of staff and customers. This is clearly evident in its practice of offering incentives, such as vaccination leave, to encourage staff inoculation.

New facilities have also been added to support production of the Joyous Series as its demands continued to rise for its health benefits. What is more, cooking and filling equipment have been upgraded to increase production capacity for soups and drinks products, as they can be easily consumed at home, hence complement the “stay-at-home” and “work-from-home” lifestyles.

## PROSPECTS

While the retail market was experiencing a more stable recovery towards the latter part of 2021, strict social distancing measures were again imposed by the Hong Kong Government in January 2022 to curb the spread of the highly contagious Omicron variant. In the wake of this new strain of COVID-19, 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. According to the Hong Kong Retail Management Association, total Retail Sales Value in the first half year is expected to be on par with the same period last year if the fifth wave of the pandemic persists in the absence of the border reopening and a new round of the E-Voucher Scheme.<sup>1</sup>

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

In Hong Kong, 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 management will continue to negotiate with landlords to ensure that high-quality locations are secured at favourable rental terms. The Group is also in talks with landlords for considerable rental concessions during this highly difficult time.

In respect of retail products, the Group will consider to conduct price adjustments to certain goods in order to partially offset cost increases, subject to the market sentiment. 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.

To increase the exposure of the Group and its products, it will engage in online exhibitions and expos. Moreover, it will promote the Group’s food delivery service to more corporate clients, including elderly care centres, charities, hospitals and social services organisations in order to secure more regular orders.

On the digitisation front, increasing memberships and building loyalty will continue to be primary objectives. Correspondingly, the Group will focus on membership recruitment via a series of joint promotions, referral programmes and recruitment booths set up at shops. To promote the organic growth of APP users, improving the user experience will be paramount. Hence, efforts will be taken to enhance various features as well as offer electronic discount coupons to increase downloads and APP 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.

As for the Hung Fook Tong food truck, the Tourism Commission announced that the Food Truck Pilot Scheme will end on 1 June 2022. The Group therefore discontinued its food truck operation in January 2022 as the licenses expired.

<sup>1</sup> Source: Hong Kong Retail Management Association’s website

## **Wholesale**

### **Hong Kong**

In the year ahead, 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.

### **Mainland China**

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

In terms of marketing strategy, 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.

### **Other Markets**

The Group anticipates a gradual recovery in the overseas business as a growing number of countries gradually ease their pandemic restrictions. For its part, the Group will strive to further penetrate the United Kingdom market while continuing to extend its presence to markets such as Japan, South Korea and Singapore.

## **CONCLUSION**

The year 2021 marked the 35th anniversary of Hung Fook Tong’s founding and fruitful journey in the wellness food and beverage industries. Over the years, its enthusiasm and dedication to offering products of unrivalled quality have earned the Group strong brand recognition. 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.

## **FINANCIAL REVIEW**

### **Revenue**

For the year ended 31 December 2021, the Group's revenue amounted to HK\$696.0 million, representing a decrease of 0.9% from HK\$702.5 million in 2020. Revenue from Hong Kong retail operation experienced a decline to HK\$525.1 million, representing a decrease of 4.3% from HK\$548.6 million in 2020 as the pandemic weakened consumption activities and consumer sentiment remained weak despite slow economic recovery. Revenue from wholesale business has increased to HK\$170.9 million, representing an increase of 11.0% from HK\$153.9 million in 2020 as a result of gradual recovery of the Group's business and operations in Mainland China market.

### **Cost of Sales**

For the year ended 31 December 2021, the Group's cost of sales amounted to HK\$278.7 million, representing an increase of 9.5% from HK\$254.7 million in 2020. As a percentage of revenue, cost of sales represented 40.0% and 36.3% in 2021 and 2020 respectively. The increase was mainly attributable to the rising cost of materials costs and staff costs.

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

For the year ended 31 December 2021, the Group's gross profit amounted to HK\$417.3 million, representing a decrease of 6.8% from HK\$447.8 million in 2020. The Group's gross profit margin decreased by 3.7 percentage points to 60.0% as compared to 63.7% in 2020. The decrease was mainly due to increase in price in certain raw materials, appreciation of RMB and higher staff costs mainly impacted by the significant decrease in government grant which led to an increase in production costs.

### **Staff Costs**

For the year ended 31 December 2021, the Group's staff costs amounted to HK\$208.9 million, representing an increase of 19.1% from HK\$175.5 million in 2020. The increase was mainly due to the significant decrease in receipt of government grant from the Employment Support Scheme. The staff costs-to-revenue ratio is 30.0% as compared to 25.0% in 2020.

### **Rental Expenses**

For the year ended 31 December 2021, 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\$99.7 million, representing an increase of 1.8% from HK\$97.9 million in 2020. The increase was mainly due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 19.0% as compared to 17.8% in 2020.

## **Advertising and Promotion Expenses**

For the year ended 31 December 2021, the Group's advertising and promotion expenses amounted to HK\$19.6 million, representing a decrease of 31.7% from HK\$28.7 million in 2020. This accounted for 2.8% and 4.1% of revenue in 2021 and 2020 respectively.

## **Depreciation**

For the year ended 31 December 2021, the depreciation of property, plant and equipment of the Group amounted to HK\$36.3 million, representing an increase of 4.5% from HK\$34.7 million in 2020. The increase was mainly arisen from the depreciation of leasehold improvement for opening of new shops and revamping of existing retail shops. This accounted for 5.2% and 4.9% respectively in percentage to revenue in 2021 and 2020.

## **Net Profit**

Profit attributable to owners of the Company for the year ended 31 December 2021 was HK\$8.2 million, representing a decrease of 86.8% from HK\$62.5 million in 2020. The net profit margin (calculated as profit for the period as a ratio of revenue) for the year ended 31 December 2021 was 1.2%, as compared to 8.9% in 2020.

Earnings per share for profit attributable to owners of the Company for the year ended 31 December 2021 amounted to HK1.25 cents, as compared to HK9.53 cents in 2020.

## **Capital Expenditure**

During the year ended 31 December 2021, capital expenditure amounted to HK\$30.6 million (2020: HK\$28.5 million). This amount was mainly used for development of online platform, 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 2021, the Group had bank deposits and cash balance amounted to HK\$116.7 million (31 December 2020: HK\$134.9 million).

As at 31 December 2021, the gearing ratio of the Group was 0.56 (31 December 2020: 0.65), which was calculated based on total debts including bank borrowings and lease liabilities divided by equity attributable to owners of the Company. Excluding the lease liabilities from total debts, the gearing ratio was 0.12 in both 2021 and 2020.

As at 31 December 2021, the Group had total banking facilities of HK\$113.7 million (31 December 2020: HK\$135.6 million) of which HK\$41.5 million (31 December 2020: HK\$43.4 million) had been utilised.

As at 31 December 2021, the Group's current liabilities exceeded its current assets by HK\$123.9 million (31 December 2020: HK\$136.8 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons to customers in Hong Kong of HK\$177.0 million (31 December 2020: HK\$157.3 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\$53.1 million (31 December 2020: HK\$20.5 million) and current ratio of 1.25 (31 December 2020: 1.09).

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**

During the financial year ended 31 December 2021, the Group subscribed for 5,000,000 ordinary shares in HomePlus Holding Limited ("**HomePlus Holding**"), a company engaged in the provision of e-commerce business in Hong Kong, at a consideration of HK\$5,000,000. As at 31 December 2021, the Group has an equity interest of 5% in HomePlus Holding.

Save as disclosed above, were no material acquisitions, disposals and significant investments during the financial year ended 31 December 2021.

### **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 2021, the Group employed approximately 904 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 2021, 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 2021 of HK0.37 cent per ordinary share, was proposed by the Board. In addition, to reward the continuous support of our shareholders, the Board also proposed a special dividend of HK0.31 cent per ordinary share. The proposed final and special dividends, amounted to a total of HK\$4,460,000 with dividend payout ratio of 0.55, have to be approved by shareholders in the forthcoming annual general meeting (“**AGM**”). These proposed dividends are not reflected as dividend payable in the consolidated statement of financial position, but will be reflected as an appropriation of share premium for the year ending 31 December 2022.

Subject to the approval of the shareholders at the forthcoming AGM, the final dividend and the special dividend will be payable on or about Friday, 8 July 2022 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Friday, 10 June 2022.

### **Closure of Register of Members**

For determining the entitlement to attend and vote at the AGM to be held on Wednesday, 1 June 2022, the register of members of the Company will be closed from Friday, 27 May 2022 to Wednesday, 1 June 2022, 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 Thursday, 26 May 2022.

For determining the entitlement to the proposed final dividend and special dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Thursday, 9 June 2022 to Friday, 10 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and special 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 Wednesday, 8 June 2022.

### **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 2021.

### **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 2021, 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 2021.

## **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 2021 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 2021 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 2021 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, 28 March 2022

*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.*