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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

HIGHLIGHTS

- Revenue for the six months ended 30 June 2022 ("**1H2022**") decreased by 1.8% to HK$340.0 million, when compared with HK$346.3 million for the six months ended 30 June 2021 ("**1H2021**").

  – Revenue from the Hong Kong retail business decreased by 2.8% to HK$262.9 million (1H2021: HK$270.6 million), with a retail network comprising 124 self-operated shops in Hong Kong as at 30 June 2022.

  – Revenue from the wholesale business increased by 1.8% to HK$77.1 million (1H2021: HK$75.7 million).

- Gross profit for 1H2022 decreased by 3.6% to HK$202.8 million (1H2021: HK$210.5 million), while gross profit margin for 1H2022 decreased by 1.2 percentage points to 59.6% (1H2021: 60.8%).

- Profit attributable to owners of the Company for 1H2022 increased by 39.8% to HK$10.2 million (1H2021: HK$7.3 million).

- Earnings per share for profit attributable to owners of the Company for 1H2022 was HK1.55 cents (1H2021: HK1.11 cents).

INTERIM RESULTS

The board of directors (the "**Board**") of Hung Fook Tong Group Holdings Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2022 together with comparative figures for the corresponding period in 2021.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

		(Unaudited)	
		Six months ended 30 June	
		2022	2021
	Note	***HK$'000***	*HK$'000*
Revenue	*3,4*	**339,998**	346,286
Cost of sales	*5*	**(137,206)**	(135,816)
Gross profit		**202,792**	210,470
Other income and other gains, net	*4*	**2,871**	4,856
Selling and distribution costs	*5*	**(28,759)**	(33,756)
Administrative and operating expenses	*5*	**(168,378)**	(170,530)
Operating profit		**8,526**	11,040
Finance income		**38**	47
Finance costs		**(2,111)**	(2,834)
Finance costs, net		**(2,073)**	(2,787)
Profit before income tax		**6,453**	8,253
Income tax expense	*6*	**(1,434)**	(1,391)
Profit for the period		**5,019**	6,862
Profit/(loss) attributable to:			
Owners of the Company		**10,165**	7,272
Non-controlling interests		**(5,146)**	(410)
		5,019	6,862

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Note	(Unaudited) Six months ended 30 June 2022 HK$'000	2021 HK$'000
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss			
– Currency translation differences		**(7,937)**	5,088
Item that will not be reclassified to profit or loss			
– Change in fair value of financial asset at fair value through other comprehensive income		**(1,729)**	–
Other comprehensive (loss)/income, net of tax		**(9,666)**	5,088
Total comprehensive (loss)/income for the period		**(4,647)**	11,950
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**578**	12,314
Non-controlling interests		**(5,225)**	(364)
		(4,647)	11,950
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted (HK cents per share)	*7*	**1.55**	1.11

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Note	As at 30 June 2022 HK$'000 (Unaudited)	As at 31 December 2021 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**298,269**	306,324
Right-of-use assets		**175,787**	193,454
Financial asset at fair value through other comprehensive income	*10*	**3,271**	5,000
Intangible assets		**2,344**	2,604
Investment in a joint venture	*11*	**–**	30
Prepayments and deposits		**23,280**	29,334
Deferred income tax assets		**11,196**	12,207
		514,147	548,953
Current assets			
Inventories		**54,705**	53,482
Trade receivables	*12*	**54,175**	46,345
Prepayments, deposits and other receivables		**43,017**	42,691
Prepaid tax		**7,813**	5,919
Cash and cash equivalents		**99,187**	116,676
		258,897	265,113
Total assets		**773,044**	814,066
EQUITY			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Reserves		**326,759**	330,642
		333,318	337,201
Non-controlling interests		**(7,465)**	(2,240)
Total equity		**325,853**	334,961

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2022

	Note	**As at 30 June 2022** *HK$'000* **(Unaudited)**	As at 31 December 2021 *HK$'000* (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**48,739**	59,028
Provision for reinstatement costs		**6,613**	4,616
Deferred income tax liabilities		**8,811**	8,804
Bank borrowings		**698**	17,631
		64,861	90,079
Current liabilities			
Trade payables	*13*	**34,605**	36,782
Accruals and other payables		**53,179**	57,541
Provision for reinstatement costs		**3,918**	3,469
Receipts in advance		**172,136**	177,021
Lease liabilities		**83,959**	90,521
Bank borrowings		**33,001**	22,069
Tax payable		**1,532**	1,623
		382,330	389,026
Total liabilities		**447,191**	479,105
Total equity and liabilities		**773,044**	814,066
Net current liabilities		**(123,433)**	(123,913)
Total assets less current liabilities		**390,714**	425,040

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Hung Fook Tong Group Holdings Limited (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 condensed consolidated interim financial information) (the "**Business**").

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

These unaudited condensed consolidated interim financial information (the "**interim financial information**") are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated. These unaudited interim financial information has been approved for issue by the Board of Directors on 29 August 2022.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The Group's current liabilities exceeded its current assets by HK$123,433,000 as at 30 June 2022 (31 December 2021: HK$123,913,000). The directors of the Company have reviewed the Group's cash flow projections, which covers a period of 12 months from 30 June 2022. 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 30 June 2022. Accordingly, these condensed consolidated interim financial information have been prepared on a going concern basis.

2.2 Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2021, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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

2.2 Summary of significant accounting policies (continued)

2.2.1 Adoption of new accounting policy in the current interim period

(a) Amended standards, improvements and accounting guidance adopted by the Group

The following amendments to existing standards, improvements and accounting guidance are effective to the Group for accounting periods beginning on or after 1 January 2022:

Annual Improvements Project	Annual Improvements 2018-2020 Cycle
HKAS 16 (Amendments)	Property, Plant and Equipment – Proceeds before Intended Use
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
Accounting Guideline 5 (Amendments)	Merger Accounting for Common Control Combinations

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

(b) New standards, amendments to standards and interpretation have been issued but not yet adopted

The following new standard, amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning on or after 1 January 2022 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	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 17	Insurance Contracts	1 January 2023
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	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

The Group will adopt the above new standard, amendments to existing standards and interpretation when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standard, amendments and interpretation, none of which is expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

Management has identified two reportable segments based on the Group's business model, namely the (1) Hong Kong Retail and (2) Wholesale.

Segment assets consist primarily of property, plant and equipment, right-of-use assets, intangible assets, inventories, trade receivables, prepayments, deposits and other receivables and cash and cash equivalents. They exclude deferred income tax assets, investment in a joint venture, financial asset at fair value through other comprehensive income, prepaid tax and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment for the six months ended 30 June 2022 and 2021.

Geographically, management considers the distribution of bottled drinks, other herbal products, soups and snacks through retail and wholesale channels are mainly located in Hong Kong and the PRC, which the revenue and segment results are determined by the nature of the business. The assets are determined based on where the assets are located. Information relating to segment liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

Unallocated corporate expenses, finance income and costs and income tax expense are not included in segment results.

There is no single external customer that contributed more than 10% revenue to the Group's revenue for the six months ended 30 June 2022 and 2021 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2022 and 2021 are as follows:

	(Unaudited) Six months ended 30 June 2022		
	Hong Kong Retail	**Wholesale**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment revenue	**269,811**	**79,810**	**349,621**
Less: Inter-segment revenue	**(6,880)**	**(2,743)**	**(9,623)**
Revenue from external customers	**262,931**	**77,067**	**339,998**
Segment results	**23,384**	**8,032**	**31,416**
Corporate expenses			**(22,890)**
Finance costs, net			**(2,073)**
Profit before income tax			**6,453**
Income tax expense			**(1,434)**
Profit for the period			**5,019**
Other segment items:			
Capital expenditure	**10,948**	**4,969**	**15,917**
Depreciation and amortisation (excluding depreciation of right-of-use assets)	**12,764**	**6,219**	**18,983**
Depreciation of right-of-use assets	**47,490**	**1,288**	**48,778**
Loss on disposal of property, plant and equipment	**31**	**–**	**31**

3 SEGMENT INFORMATION (CONTINUED)

	(Unaudited) Six months ended 30 June 2021		
	Hong Kong Retail	Wholesale	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment revenue	274,516	77,532	352,048
Less: Inter-segment revenue	(3,900)	(1,862)	(5,762)
Revenue from external customers	270,616	75,670	346,286
Segment results	23,809	7,946	31,755
Corporate expenses			(20,715)
Finance costs, net			(2,787)
Profit before income tax			8,253
Income tax expense			(1,391)
Profit for the period			6,862
Other segment items:			
Capital expenditure	10,041	3,577	13,618
Depreciation and amortisation (excluding depreciation of right-of-use assets)	11,743	6,043	17,786
Depreciation of right-of-use assets	49,184	314	49,498
Loss on disposal of property, plant and equipment	46	—	46

3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2022 and 31 December 2021 are as follows:

	Hong Kong Retail *HK$'000*	Wholesale *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
As at 30 June 2022 (Unaudited)				
Segment assets	**489,216**	**251,064**	**(454)**	**739,826**
Financial asset at fair value through other comprehensive income				**3,271**
Prepaid tax				**7,813**
Deferred income tax assets				**11,196**
Corporate assets				**10,938**
Total assets				**773,044**
As at 31 December 2021 (Audited)				
Segment assets	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
Total assets				814,066

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

4 REVENUE, OTHER INCOME AND OTHER GAINS, NET

The Group's revenue, other income and other gains, net recognised during the six months ended 30 June 2022 and 2021 are as follows:

	(Unaudited) Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**339,998**	346,286
Other income		
Government grants *(Note (a))*	**1,880**	1,400
Management income from an associate	**–**	723
Service income	**305**	2,268
Insurance claim	**37**	216
Others	**528**	275
	2,750	4,882
Other gains/(losses), net		
Exchange differences	**152**	20
Losses on disposal of property, plant and equipment	**(31)**	(46)
	121	(26)
Other income and other gains, net	**2,871**	4,856

Note:

(a) Government subsidies of HK$1,880,000 (2021: HK$1,400,000) were granted from the Catering Business Subsidy Scheme under Anti-Epidemic Fund launched by the Government of the Hong Kong Special Administrative Region. The Group has complied with all attached conditions before 30 June 2022 and recognised in "other income".

5 EXPENSES BY NATURE

	(Unaudited) Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Cost of inventories sold	**107,804**	105,264
Lease rental in respect of retail outlets *(Note (a))*		
– Contingent rental	**213**	217
Lease rental in respect of storage spaces and office premises *(Note (a))*	**5,947**	5,279
Advertising and promotional expenditure	**5,632**	12,644
Depreciation of property, plant and equipment *(Note 9)*	**18,723**	17,786
Depreciation of right-of-use assets	**48,778**	49,498
Amortisation of intangible assets	**260**	–
Communication and utilities	**15,405**	13,548
Employee benefit expenses (including directors' emoluments) *(Note (b))*	**96,687**	102,528
Legal and professional fees	**3,964**	3,773
Tools, repair and maintenance expenses	**4,911**	5,444
Transportation and distribution expenses	**15,982**	15,013
Others	**10,037**	9,108
Total cost of sales, selling and distribution costs and administrative and operating expenses	**334,343**	340,102

Notes:

(a) These expenses included short-term leases expenses of HK$548,000 (2021: HK$531,000), variable lease payment expenses of HK$417,000 (2021: HK$1,253,000) and other rental-related expenses of HK$5,195,000 (2021: HK$3,712,000) for the six months ended 30 June 2022.

(b) During the six months ended 30 June 2022, government subsidies of HK$10,404,000 (2021: Nil) was granted from the Employment Support Scheme under Anti-Epidemic Fund in relation to employment status of the Group from May to June 2022. The Group has complied with all attached conditions before 30 June 2022 and the amounts of HK$1,051,000 and HK$9,353,000 were recognised in "cost of sales" and "administrative and operating expenses" respectively and had been offset against with the employee benefit expenses.

6 INCOME TAX EXPENSE

Hong Kong Profits Tax and PRC Corporate Income Tax ("CIT") have been provided at the rate of 16.5% and 25%, respectively (2021: 16.5% and 25% respectively).

The amount of income tax expense charged to the condensed consolidated interim statement of comprehensive income represents:

	(Unaudited) Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Current income tax		
– Current income tax	**132**	–
– Under/(over)-provision in prior years	**286**	(20)
Deferred income tax	**1,016**	1,411
Income tax expense	**1,434**	1,391

7 EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June	
	2022	2021
Profit attributable to owners of the Company (HK$'000)	**10,165**	7,272
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 (HK cents)	**1.55**	1.11
– Diluted earnings per share (HK cents)	**1.55**	1.11

(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 period.

(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 six months ended 30 June 2022 and 2021 equal basic earnings per share as there were no potentially dilutive ordinary shares as at both period ends.

8 DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (30 June 2021: Nil).

9 PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
At 1 January	**306,324**	310,348
Additions	**15,917**	13,618
Disposals	**(31)**	(92)
Depreciation	**(18,723)**	(17,786)
Exchange difference	**(5,218)**	3,472
At 30 June	**298,269**	309,560

Depreciation of HK$5,849,000 (2021: HK$5,682,000) has been charged in 'cost of sales', HK$12,874,000 (2021: HK$12,104,000) in 'administrative and operating expenses' for the six months ended 30 June 2022.

10 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2022	As at 31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Unlisted equity investment	**3,271**	5,000

	(Unaudited) Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
At 1 January	**5,000**	–
Transfer from the investment in an associate *(Note 11)*	**–**	5,000
Change in fair value recognised in other comprehensive income	**(1,729)**	–
At 30 June	**3,271**	5,000

Financial asset at fair value through other comprehensive income ("FVOCI") comprises unlisted equity investment which is not held for trading, and the Group has irrevocably elected at initial recognition to recognise the investment as FVOCI. This is a strategic investment and the Group considers this classification to be more relevant.

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.

During the period, HomePlus Holding Limited has performed shares allotment and issued 100,000,000 ordinary shares to the existing shareholders. The Group did not subscribe any shares and hence, its equity interests has been diluted from 5.0% to 2.5% as at 30 June 2022.

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 30 June 2022 and 2021. Management reviewed the valuation report and discussed the valuation processes and results with the external valuer.

11 INVESTMENT IN A JOINT VENTURE

	(Unaudited) Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
At 1 January	**30**	36
Capital injection *(Note)*	**–**	5,000
Return of capital from a joint venture upon deregistration	**(30)**	–
Transfer to financial asset at fair value through other comprehensive income *(Note)*	**–**	(5,000)
At 30 June	**–**	36

Note:

On 4 May 2021, the Group's representative resigned from the Board of Directors of the investee. Management considered that the Group ceased to have significant influence over the investee, and the investment has been reclassified as financial asset at fair value through other comprehensive income since 4 May 2021. Management assessed that the fair value of the investment approximated to its carrying amount as at 4 May 2021, and therefore there was no fair value gain or loss recognised in the profit or loss on the date of reclassification. For details of the fair value measurement, refer to Note 10.

12 TRADE RECEIVABLES

	As at 30 June 2022	As at 31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables from third parties	**54,379**	46,512
Trade receivables from a related party	**339**	376
	54,718	46,888
Less: Provision for impairment on trade receivables	**(543)**	(543)
Trade receivables, net	**54,175**	46,345

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (31 December 2021: 30 to 105 days). As at 30 June 2022 and 31 December 2021, the ageing analysis of the trade receivables, based on invoice date, are as follows:

	As at 30 June 2022	As at 31 December 2021
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Less than 30 days	**18,785**	19,001
31 – 90 days	**27,134**	23,280
Over 90 days	**8,256**	4,064
	54,175	46,345

13 TRADE PAYABLES

As at 30 June 2022 and 31 December 2021, the ageing analysis of the trade payables, based on invoice date are as follows:

	As at 30 June 2022 *HK$'000* **(Unaudited)**	As at 31 December 2021 *HK$'000* (Audited)
0 – 30 days	**17,333**	19,082
31 – 60 days	**11,847**	10,502
61 – 90 days	**3,856**	4,469
Over 90 days	**1,569**	2,729
	34,605	36,782

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2022 ("**1H2022**" or the "**Review Period**"), the Group's operations in both Hong Kong and Mainland China were severely impacted by strict social distancing measures imposed by respective governments to combat the newest waves of the Coronavirus Disease 2019 ("**COVID-19**") pandemic. Consequently, consumer sentiment was dampened and retail traffic was weakened. Despite daunting challenges during 1H2022, the Group managed to maintain relatively stable sales performance, with revenue totalling HK$340.0 million, down 1.8% from HK$346.3 million recorded for the six months ended 30 June 2021 ("**1H2021**"). Gross profit edged downward by 3.6% to HK$202.8 million (1H2021: HK$210.5 million), while the gross profit margin dipped to 59.6% (1H2021: 60.8%), due primarily to the decline in revenue, higher raw material costs and higher utility expenses. However, profit attributable to owners of the Company increased by 39.8% to HK$10.2 million (1H2021: HK$7.3 million), owing mainly to the receipt of more government grants under the pandemic relief measures as compared with the same period in 2021. In total, HK$12.3 million (1H2021: HK$1.4 million) was received, comprising funds from the Employment Support Scheme and subsidies for food license holders.

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

Contributing the largest portion of the Group's revenue, the Hong Kong retail business generated HK$262.9 million (1H2021: HK$270.6 million) during 1H2022, or a year-on-year decline of 2.8%, though still equating to 77.3% of total revenue. As the first quarter of the year witnessed the fifth wave of COVID-19, which involved the most contagious strain to affect the population since the COVID-19 outbreak, particularly rigorous social distancing measures were introduced, which resulted in a sharp fall in store traffic and decline in same-store sales. Moreover, there were numerous exhibitions and expos cancelled when the fifth wave of the pandemic was at its height, which further contributed to the revenue shortfall.

Despite efforts to curb operational costs, such as negotiating for more preferential rental concessions, segment profit declined by 1.8% to HK$23.4 million (1H2021: HK$23.8 million). This was the consequence of higher raw material prices and utility expenses.

In the face of stiff headwinds, the Group sought to further fortify its leading market position. This included the careful reinforcement of its presence in the city, which stood at 124 self-operated shops as at 30 June 2022, hence remaining the largest Chinese herbal retailer in Hong Kong based on retail network size. During the Review Period, the Group opened a total of six new shops, comprising two "HFT Life" cafés at the Hong Kong Science Park and a shopping mall, and four Hung Fook Tong shops located along MTR stations – including the newly opened Exhibition Centre station, and in a shopping mall. As a result of such efforts, there are now a total of nine HFT Life cafés that appeal to the younger generations. It is important to note as well that owing to the agile management of human resources and the dedicated efforts of frontline staff, most of the Group's retail stores continued to deliver services to customers despite the severity of the COVID-19 situation in 1H2022; hence helped mitigate the impact of the pandemic on the Group's retail operation.

Along with an enlarged market presence, the Group employed marketing and product launches to promote spending and increase the average transaction amount. Such efforts were able to partly offset the decline in transaction volume in the wake of the fifth wave of pandemic. Average spending per customer consequently increased when compared with 1H2021, in particular, average spending per JIKA CLUB (自家CLUB) member rose by over 10%.

Amid the challenging times, and particularly the stay-at-home trend arising from the pandemic, the Group introduced more rice, noodles and snack options to facilitate home-cooking. Certain bulk purchase orders of its pre-packaged products and coupons were also received from different organisations when the fifth wave suddenly and severely impacted Hong Kong. Yet another product line that enjoyed strong uptake was the Group's new sugar-free herbal tea series which capitalized on the increasing health consciousness and wellness needs of the public.

Also receiving favourable response was the Group's marketing campaigns which were particularly developed to capitalise on the Consumption Voucher Scheme that commenced disbursements in April 2022. Specifically, the Group rolled out a series of attractive combo sets including health boosting products. The Group also engaged in joint promotions with banks and other partners that brought favourable outcomes. Separately, the Group took the opportunity to make price adjustments on certain products in order to offset higher production costs during 1H2022.

In 1H2022, membership recruitment and digitisation were two areas that continued to achieve progress. With regard to the former, the Group both acquired and retained members through exclusive promotional offers and privileges. This is reflected by an upsurge in JIKA CLUB memberships, which exceeded 1.2 million as at 30 June 2022, or an increase of approximately 50,000 when compared with the end of 2021.

As for digitisation, the Group persisted with its strategy of promoting e-coupons. Indicative of the Group's successful effort, over 80% of coupons redeemed by members during the Review Period were of the electronic format. The Group also promoted the use of the "JIKA PAY" e-Card via the Hung Fook Tong mobile application ("**APP**"). The number of APP downloads subsequently increased by 40% as compared with 1H2021, and over 26% of total member transactions were completed via the APP. In addition, the "JIKA ON！" (自家 ON！) online marketplace that was soft launched at the end of 2021 has been able to attract existing JIKA CLUB members and a wider audience to register for the platform through special offers and registration promotions via self-operated shops and online channels. Echoing the brand core of "Quality Goods for Quality Life", JIKA ON！has been providing an even wider spectrum of healthy, eco-friendly and locally produced goods that appeal to health-conscious and family-oriented customers.

Wholesale

The wholesale segment recorded a modest increase in revenue, rising by 1.8% year-on-year to HK$77.1 million (1H2021: HK$75.7 million). Even though the Mainland China business experienced a decline, it was offset by growth from the Hong Kong operation. However, due to an increase in raw material costs, there was only a marginal rise in segment profit of 1.1% to HK$8.0 million (1H2021: HK$7.9 million).

Hong Kong

In Hong Kong, the wholesale business saw revenue climb by 6.2% to HK$64.2 million (1H2021: HK$60.5 million), despite the impact of the fifth wave of COVID-19 which led to no dine-in service during evenings for extended periods and in turn resulted in weaker sales from restaurants. This achievement can be attributed to strong ties with key accounts, distributors and online resellers, as well as the launch of non-beverage products that helped expand the Group's customer base. During the Review Period, the Group partnered with PARKnSHOP in launching a novel series of refreshing co-branded herbal drinks, each with unique health benefits. An extended variety of products, such as ambient temperature soup packs, stewed pork trotter and ginger in sweet vinegar packs, and squeezing tortoise plastron jelly were also introduced to PARKnSHOP locations.

Mainland China

Revenue from the Mainland China wholesale business fell 15.5% to HK$12.9 million (1H2021: HK$15.2 million) for 1H2022. The contraction was the aftermath of quarantine and lockdown measures implemented to contain outbreaks of new COVID-19 variants. Despite a broad range of challenges, the Group was able to strengthen ties with key accounts mainly in Southern China. Such efforts led to the increased availability of its products, including over 9,000 convenience stores in cities like Guangzhou, Dongguan, Shenzhen, Shanghai, as well as various supermarkets and department stores as at the end of 1H2022. The Group also partnered with distributors to tap new channels, including Bailihui (百里匯) convenience stores, Polison (百里臣) convenience stores, Jiangmen Daymart supermarkets (江門大昌超市) and Sinopec petrol stations (中石化).

Mindful of lower foot traffic amid strict pandemic controls, the Group increased online sales and marketing efforts. As a result, the Group's products are available through online platforms such as JD.com (京東), Taobao (淘寶), Tmall (天貓) and Meituan (美團).

Other Markets

During 1H2022, with international logistics costs remaining high, the Group elected not to aggressively tap new markets. On the positive side, there was a gradual sales recovery in existing overseas markets including Malaysia and the United States, following the easing of COVID-19 restrictions. In addition, shipments to the United Kingdom continued.

PROSPECTS

Despite the difficult operating environment in 1H2022, the retail industry in Hong Kong is expected to recover progressively in the remaining six months of the year as strict pandemic control measures are gradually relaxed. Moreover, the disbursement of new rounds of consumption vouchers by the Hong Kong Government in August and October is anticipated to help stimulate the retail market to a certain extent. Still, the business environment is expected to remain highly uncertain due to different factors in the macro environment such as inflation and higher interest rates, leading to generally higher operating costs. The Group will remain vigilant and pay heed to potential risks arising from escalating operating costs and weaker consumer sentiment. It will continue its efforts to tap new revenue streams and protect its market leadership through high-quality products that capitalise on the growing health-conscious trend among consumers.

Hong Kong Retail

Going forward, the Group will maintain a robust store network in Hong Kong and fortify its market leading position. The Group therefore envisages opening one to two additional stores in the second half year. Already, it has secured one location for an HFT Life store, specifically in a university campus. At the same time, the Group will maintain close contact with landlords with a view to negotiating for better rental renewal terms and securing potential concessions.

To promote consumption, the Group will leverage upcoming holiday seasons and the aforementioned disbursement of government consumption vouchers by launching relevant promotions. Already, the Group has kicked off special summer offers in July that covers a combination of health products, and has released more offers in August including Mid-Autumn Festival packages that feature Hung Fook Tong mooncakes. In addition, the Group will further promote dietary food that are appropriate for women who are in postpartum confinement or who are pregnant, hence items such as pork trotter and ginger, chicken essence, soups, rice, congee, desserts.

In the second half year, the Group will also seek to reinforce its market leadership in the pre-packaged soup segment. This will be in conjunction with the development of more ambient temperature products that are easy to consume, hence, along with ambient soups, dessert options will be created – all of which will facilitate the tapping of new sales channels. To drive sales and increase exposure, the Group has already confirmed its participation in a number of physical exhibitions and expos in the remaining half year. It will also join online expos with resellers and business partners, which is consistent with its adherence to the omnichannel business model.

To further generate sales, specifically through memberships, the Group will exert still greater effort in recruitment and engagement, as well as expedite the digitalisation of relevant operations. On the member recruitment front, the Group will continue with its referral programme and introduce a series of joint promotions for members. As for digitisation, it will launch more incentives to encourage the download and use of the Hung Fook Tong APP. Furthermore, electronic discount coupons exclusively available via the APP will be rolled out in August 2022 to attract potential JIKA CLUB members and to also urge more downloads. As for JIKA ON ! , it will continue to add new merchandise, more e-coupons and food items, which will act as catalyst for increasing patronage of the online marketplace.

Wholesale

The Hong Kong wholesale operation will witness new product introduction in the second half year. In July, the Group has launched a series of special edition bottled drinks that follow an art theme. They incorporate different visual and cultural elements in the packaging design, all of which have been favourites among customers. What is more, one of the drinks use plastic bottles 100% made from rPET (recycled polyethylene terephthalate) in a move to support the reduction in plastic waste and carbon emission. In addition, the Group will seek to further secure cross-brand collaborations and roll out more marketing campaigns or events.

As for the Mainland China market, online channels will take on added importance, serving as the conduits for product promotions and sales by retailers amidst pandemic restrictions. Consequently, the Group will redouble promotion efforts via more online and social platforms such as TikTok (抖音) and Xiao Hong Shu (小紅書). Geographically, the Group will focus on penetrating the Guangdong province market including in second tier cities such as Foshan, Zhongshan and Huizhou. It will also further bolster ties with key accounts so that even more fresh and long shelf-life products return to the shelves of convenience stores and supermarkets.

Regarding other markets, the Group expects sales momentum to gradually build as pandemic restrictions further ease in key overseas markets. The Group will proactively tap markets with high potential, including the United Kingdom where the demand for the Group's products has been rising. Discussions with distributors in markets such as South Korea and Japan are already underway.

Enhances Family-Friendly Work Policies

The Group fully believes that employees are its most valuable assets, hence their wellbeing is vital to its long-term development. Consistent with this belief, the Group is piloting a hybrid work model from August of this year, which allows office staff to work one day per week from home, with the aim of improving their work-life balance. It also extends the current flexible working hours arrangement and introduces more family-friendly measures. This includes the launch of the "Summer Vacation at Office" programme in August, which allows office employees to bring their children to the office for childcare during the summer vacation period, and "PAWsome Pet-friendly Day" which welcomes employees' furry friends to the workplace. These policies will promote a more favourable work environment that is conducive to attracting and retaining talent, leading ultimately to the success and sustainability of the Group's business.

CONCLUSION

The resilient performance that the Group demonstrated during the challenging first half year is a testament to the strong brand recognition that Hung Fook Tong enjoys, as well as the management's thorough understanding of consumers' needs, which has led to the development of a rich portfolio of high-quality products. Going forward, the Group will continue to leverage its operational excellence and market expertise built over the years to rise above the challenges ahead and capture market opportunities that emerge, and thus create long-term sustainable value for its stakeholders.

FINANCIAL REVIEW

Revenue

In 1H2022, the Group's revenue amounted to HK$340.0 million, representing a decrease of 1.8% from HK$346.3 million in 1H2021. Revenue from Hong Kong retail operation experienced a decline to HK$262.9 million, representing a decrease of 2.8% from HK$270.6 million in 1H2021, due to the challenges brought about by the fifth wave of COVID-19 epidemic during the first quarter of year 2022. Revenue from wholesale business has increased to HK$77.1 million, representing an increase of 1.8% from HK$75.7 million in 1H2021, as a result of expanding customer base from the Hong Kong wholesale market.

Cost of Sales

In 1H2022, the Group's cost of sales amounted to HK$137.2 million, representing an increase of 1.0% from HK$135.8 million in 1H2021. As a percentage of revenue, cost of sales represented 40.4% and 39.2% in 1H2022 and 1H2021 respectively. The increase was mainly due to the rising costs of material.

Gross Profit and Gross Profit Margin

In 1H2022, the Group's gross profit amounted to HK$202.8 million, representing a decrease of 3.6% from HK$210.5 million in 1H2021. The Group's gross profit margin decreased by 1.2 percentage points to 59.6% as compared to 60.8% in 1H2021, mainly attributable to higher material costs and utility expenses.

Staff Costs

In 1H2022, the Group's staff costs amounted to HK$96.7 million, representing a decrease of 5.7% from HK$102.5 million in 1H2021. The decrease was mainly due to the receipt of government grant from the Employment Support Scheme in 1H2022. The staff costs-to-revenue ratio is 28.4% as compared to 29.6% in 1H2021.

Rental Expenses

In 1H2022, rental expenses in relation to the Group's 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$49.6 million, representing a decrease of 2.5% from HK$50.9 million in 1H2021 as a result of rental concessions granted by certain landlords. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 18.9% as compared to 18.8% in 1H2021.

Depreciation

In 1H2022, the depreciation of property, plant and equipment of the Group amounted to HK$18.7 million, representing an increase of 5.3% from HK$17.8 million in 1H2021. The increase was mainly due to the depreciation of leasehold improvements for opening new shops and revamping existing retail shops. The depreciation-to-revenue ratio is 5.5% as compared to 5.1% in 1H2021.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the six months ended 30 June 2022 was HK$10.2 million, representing an increase of 39.8% from HK$7.3 million in 1H2021. The net profit margin (calculated as profit attributable to owners of the Company for the period as a ratio of revenue) for 1H2022 was 3.0%, as compared to 2.1% in 1H2021.

Earnings per share for profit attributable to owners of the Company for the six months ended 30 June 2022 amounted to HK1.55 cents, as compared to HK1.11 cents in 1H2021.

Capital Expenditure

Capital expenditure incurred during 1H2022 amounted to HK$15.9 million (1H2021: HK$13.6 million), primarily in the opening of new shops, revamping of existing retail shops, acquisition of production facilities in Mainland China and Tai Po plants and construction of the production plant in Kaiping City, Mainland China.

Liquidity and Financial Resources Review

As at 30 June 2022, the Group had bank deposits and cash balance amounted to HK$99.2 million (31 December 2021: HK$116.7 million).

As at 30 June 2022, the gearing ratio of the Group was 0.50 (31 December 2021: 0.56), 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 0.10 (31 December 2021: 0.12).

As at 30 June 2022, the Group had total banking facilities of HK$121.7 million (31 December 2021: HK$113.7 million) of which HK$35.5 million (31 December 2021: HK$41.5 million) had been utilised.

As at 30 June 2022, the Group's current liabilities exceeded its current assets by HK$123.4 million (31 December 2021: HK$123.9 million). Included in current liabilities are receipts in advance relating to sales of prepaid credits, coupons and cards to customers in Hong Kong of HK$172.1 million (31 December 2021: HK$177.0 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$48.7 million (31 December 2021: HK$53.1 million) and current ratio of 1.23 (31 December 2021: 1.25).

The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable it to continue its business in a manner consistent with its short-term and long-term financial strategies.

Foreign Currency Risk

The Group operates mainly in Hong Kong and Mainland China and conducts its 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 movements.

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments during the six months ended 30 June 2022.

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 30 June 2022, the Group employed approximately 863 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 six months ended 30 June 2022, 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

Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: Nil).

Corporate Governance Code

The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the six months ended 30 June 2022.

Model Code of Securities Transactions by Directors

The Company has adopted a code of conduct (the "**Code of Conduct**") based on the required standard 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 six months ended 30 June 2022, all of the Directors confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct.

Audit Committee

The Company has established an audit committee ("**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. Amongst the Audit Committee's principal duties is to review and supervise the Company's financial reporting process, risk management and internal control systems of the Group, including the review of the unaudited interim financial information for the six months ended 30 June 2022.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the unaudited interim financial information for the six months ended 30 June 2022 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Purchase, Sale or Redemption of Listed Securities

For the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

Publication of Interim Report

The 2022 interim report of the Company containing all the information required by the Listing Rules will be dispatched to its shareholders and published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.hungfooktongholdings.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 August 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.