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 2024

HIGHLIGHTS

- Revenue for the six months ended 30 June 2024 ("**1H2024**") decreased by 7.1% to HK$308.0 million, when compared with HK$331.7 million for the six months ended 30 June 2023 ("**1H2023**").

  – Revenue from the Hong Kong retail business decreased by 6.1% to HK$236.3 million (1H2023: HK$251.7 million), with a retail network comprising 108 self-operated shops in Hong Kong as at 30 June 2024.

  – Revenue from the wholesale business decreased by 10.4% to HK$71.7 million (1H2023: HK$80.0 million).

- Gross profit for 1H2024 decreased by 6.4% to HK$181.5 million (1H2023: HK$193.9 million), while gross profit margin for 1H2024 increased by 0.4 percentage point to 58.9% (1H2023: 58.5%).

- Loss attributable to owners of the Company for 1H2024 was HK$7.9 million as compared with a loss of HK$9.6 million in 1H2023.

- Loss per share for loss attributable to owners of the Company for 1H2024 was HK1.21 cents (1H2023: HK1.47 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 2024 together with comparative figures for the corresponding period in 2023.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2024

		(Unaudited) Six months ended 30 June	
		2024	2023
	Note	***HK$'000***	*HK$'000*
Revenue	*3,4*	**308,032**	331,678
Cost of sales	*5*	**(126,503)**	(137,771)
Gross profit		**181,529**	193,907
Other income and other gains, net	*4*	**1,281**	2,890
Selling and distribution costs	*5*	**(24,032)**	(26,268)
Administrative and operating expenses	*5*	**(164,674)**	(182,070)
Reversal of impairment loss on financial assets		**–**	961
Operating loss		**(5,896)**	(10,580)
Finance income		**36**	58
Finance costs		**(4,967)**	(3,223)
Finance costs, net		**(4,931)**	(3,165)
Loss before income tax		**(10,827)**	(13,745)
Income tax credit/(expense)	*6*	**62**	(159)
Loss for the period		**(10,765)**	(13,904)
Loss attributable to:			
Owners of the Company		**(7,925)**	(9,649)
Non-controlling interests		**(2,840)**	(4,255)
		(10,765)	(13,904)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2024

		(Unaudited) Six months ended 30 June	
		2024	2023
	Note	***HK$'000***	*HK$'000*
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss			
– Currency translation differences		**(4,389)**	(4,134)
Item that will not be reclassified to profit or loss			
– Remeasurements of employee benefit obligations		**–**	75
Other comprehensive loss, net of tax		**(4,389)**	(4,059)
Total comprehensive loss for the period		**(15,154)**	(17,963)
Total comprehensive loss attributable to:			
Owners of the Company		**(12,216)**	(13,633)
Non-controlling interests		**(2,938)**	(4,330)
		(15,154)	(17,963)
Loss per share for loss attributable to owners of the Company			
– Basic and diluted (HK cents)	*7*	**(1.21)**	(1.47)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024

	Note	As at 30 June 2024 HK$'000 (Unaudited)	As at 31 December 2023 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	**240,539**	254,880
Right-of-use assets		**187,533**	196,290
Intangible assets		**1,945**	2,297
Prepayments and deposits		**24,266**	23,268
Deferred income tax assets		**8,816**	8,589
		463,099	485,324
Current assets			
Inventories		**30,249**	38,575
Trade receivables	10	**55,314**	56,260
Prepayments, deposits and other receivables		**46,101**	43,646
Prepaid tax		**1,668**	1,428
Cash and cash equivalents		**79,381**	88,530
		212,713	228,439
Total assets		**675,812**	713,763
EQUITY			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Reserves		**259,376**	271,592
		265,935	278,151
Non-controlling interests		**(25,213)**	(22,275)
Total equity		**240,722**	255,876

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2024

	Note	**As at 30 June 2024 *HK$'000* (Unaudited)**	As at 31 December 2023 *HK$'000* (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**66,688**	72,934
Provision for reinstatement costs		**5,751**	5,324
Deferred income tax liabilities		**6,113**	6,113
Employee benefit obligations		**3,976**	4,121
		82,528	88,492
Current liabilities			
Trade payables	*11*	**32,803**	37,865
Accruals and other payables		**54,510**	59,274
Provision for reinstatement costs		**2,628**	3,355
Receipts in advance		**141,986**	149,002
Lease liabilities		**81,920**	82,446
Bank borrowings		**37,964**	36,566
Tax payable		**751**	887
		352,562	369,395
Total liabilities		**435,090**	457,887
Total equity and liabilities		**675,812**	713,763
Net current liabilities		**(139,849)**	(140,956)
Total assets less current liabilities		**323,250**	344,368

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 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 23 August 2024.

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 2024 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 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The Group's current liabilities exceeded its current assets by HK$139,849,000 as at 30 June 2024 (31 December 2023: HK$140,956,000) and the Group incurred a loss for the period ended 30 June 2024 of HK$10,765,000. The directors of the Company have reviewed the Group's cash flow projections, which covers a period of 12 months from 30 June 2024. 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 2024. 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 2023, 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) Certain amendments to existing standards and interpretation adopted by the Group

The following amendments to existing standards and interpretation are effective to the Group for accounting periods beginning on or after 1 January 2024:

HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRS 16 (Amendments)	Lease Liability in Sale and Leaseback
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements

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

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

The following new standards, amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning on or after 1 January 2024 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 21 and HKFRS 1 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 9 and HKFRS 7 (Amendments)	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19	Subsidiaries without Public Accountability: Disclosures	1 January 2027
Hong Kong Interpretation 5 (Amendments)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2027
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 standards, 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 standards, amendments to existing standards 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 prepaid tax, deferred income tax assets and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment and intangible assets for the six months ended 30 June 2024 and 2023.

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 2024 and 2023 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2024 and 2023 are as follows:

	(Unaudited) Six months ended 30 June 2024		
	Hong Kong Retail *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**241,072**	**73,056**	**314,128**
Less: Inter-segment revenue	**(4,726)**	**(1,370)**	**(6,096)**
Revenue from external customers	**236,346**	**71,686**	**308,032**
Segment results	**5,339**	**8,780**	**14,119**
Corporate expenses *(Note (a))*			**(20,015)**
Finance costs, net			**(4,931)**
Loss before income tax			**(10,827)**
Income tax credit			**62**
Loss for the period			**(10,765)**
Other segment items:			
Capital expenditure	**2,785**	**3,050**	**5,835**
Depreciation and amortisation (excluding depreciation of right-of-use assets)	**12,036**	**4,655**	**16,691**
Depreciation of right-of-use assets	**47,927**	**390**	**48,317**
Losses on disposal of property, plant and equipment	**97**	**–**	**97**

3 SEGMENT INFORMATION (CONTINUED)

	(Unaudited) Six months ended 30 June 2023		
	Hong Kong Retail *HK$'000*	Wholesale *HK$'000*	Total *HK$'000*
Segment revenue	257,379	81,272	338,651
Less: Inter-segment revenue	(5,696)	(1,277)	(6,973)
Revenue from external customers	251,683	79,995	331,678
Segment results	3,824	9,444	13,268
Corporate expenses *(Note (a))*			(23,848)
Finance costs, net			(3,165)
Loss before income tax			(13,745)
Income tax expense			(159)
Loss for the period			(13,904)
Other segment items:			
Capital expenditure	5,950	659	6,609
Depreciation and amortisation (excluding depreciation of right-of-use assets)	13,509	4,993	18,502
Depreciation of right-of-use assets	49,952	298	50,250
Losses on disposal of property, plant and equipment	17	–	17

3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2024 and 31 December 2023 are as follows:

	Hong Kong Retail *HK$'000*	Wholesale *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
As at 30 June 2024 (Unaudited)				
Segment assets	**441,915**	**204,675**	**(682)**	**645,908**
Prepaid tax				**1,668**
Deferred income tax assets				**8,816**
Corporate assets *(Note (b))*				**19,420**
Total assets				**675,812**
As at 31 December 2023 (Audited)				
Segment assets	466,256	217,410	(620)	683,046
Prepaid tax				1,428
Deferred income tax assets				8,589
Corporate assets *(Note (b))*				20,700
Total assets				713,763

Notes:

(a) Corporate expenses mainly included employee benefit expenses, depreciation of right-of-use assets and property, plant and equipment of headquarters office and auditors' remuneration for the six months ended 30 June 2024 and 2023.

(b) Corporate assets mainly included cash and cash equivalents, prepayment, deposits and other receivables, and right-of-use assets and property, plant and equipment of headquarters office as at 30 June 2024 and 31 December 2023.

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 six months ended 30 June 2024 and 2023, no revenue was generated from the Cayman Islands. As at 30 June 2024 and 31 December 2023, no assets were located in the Cayman Islands.

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 2024 and 2023 are as follows:

	(Unaudited) Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
Revenue recognised at a point in time		
Sale of goods	**308,032**	331,678
Other income		
Service income	**178**	2,080
Others	**1,045**	703
	1,223	2,783
Other gains, net		
Exchange differences	**150**	124
Losses on disposal of property, plant and equipment	**(92)**	(17)
	58	107
Other income and other gains, net	**1,281**	2,890

5 EXPENSES BY NATURE

	(Unaudited) Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
Cost of inventories sold	**99,671**	106,925
Lease rental in respect of retail outlets *(Note (a))*		
– Contingent rental	**67**	337
Lease rental in respect of storage spaces and office premises *(Note (a))*	**5,159**	6,255
Advertising and promotional expenditure	**5,562**	5,819
Depreciation of property, plant and equipment *(Note 9)*	**16,863**	18,745
Depreciation of right-of-use assets	**49,417**	51,294
Amortisation of intangible assets	**352**	327
Communication and utilities	**13,489**	15,527
Employee benefit expenses (including directors' emoluments)	**93,701**	104,836
Provision for impairment loss on right-of-use assets	**472**	2,191
Legal and professional fees	**1,624**	2,153
Auditor's remuneration		
– Audit services	**1,400**	1,400
Tools, repair and maintenance expenses	**5,346**	5,712
Transportation and distribution expenses	**13,062**	15,239
Others	**9,024**	9,349
Total cost of sales, selling and distribution costs and administrative and operating expenses	**315,209**	346,109

Note:

(a) These expenses included short-term leases expenses of HK$153,000 (2023: HK$435,000), variable lease payment expenses of HK$245,000 (2023: HK$124,000) and other rental-related expenses of HK$4,828,000 (2023: HK$6,033,000) for the six months ended 30 June 2024.

6 INCOME TAX (CREDIT)/EXPENSE

Hong Kong Profits Tax and PRC Corporate Income Tax ("CIT") have been provided at the rate of 16.5% and 25%, respectively (2023: Same).

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

	(Unaudited) Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
Current income tax		
– Current income tax	**150**	257
– Under-provision in prior years	**17**	39
Deferred income tax	**(229)**	(137)
Income tax (credit)/expense	**(62)**	159

7 LOSS PER SHARE

	(Unaudited) Six months ended 30 June	
	2024	2023
Loss attributable to owners of the Company (HK$'000)	**(7,925)**	(9,649)
Weighted average number of ordinary shares for the calculation of basic loss per share (thousands)	**655,944**	655,944
Loss per share for loss attributable to owners of the Company		
– Basic loss per share (HK cents)	**(1.21)**	(1.47)
– Diluted loss per share (HK cents)	**(1.21)**	(1.47)

(a) Basic

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

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted loss per share for the six months ended 30 June 2024 and 2023 equal basic loss per share as there were no potentially dilutive ordinary shares as at both period ends.

8 DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2024 (2023: Nil).

9 PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June	
	2024	2023
	HK$'000	*HK$'000*
At 1 January	**254,880**	285,637
Additions	**5,835**	6,603
Disposals	**(112)**	(41)
Depreciation	**(16,863)**	(18,745)
Exchange difference	**(3,201)**	(2,747)
At 30 June	**240,539**	270,707

Depreciation of HK$5,345,000 (2023: HK$5,389,000) has been charged in 'cost of sales' and HK$11,518,000 (2023: HK$13,356,000) in 'administrative and operating expenses' for the six months ended 30 June 2024.

10 TRADE RECEIVABLES

	As at 30 June 2024 HK$'000 (Unaudited)	As at 31 December 2023 HK$'000 (Audited)
Trade receivables from third parties	**55,754**	56,776
Less: Provision for impairment on trade receivables	**(440)**	(516)
Trade receivables, net	**55,314**	56,260

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (31 December 2023: Same). As at 30 June 2024 and 31 December 2023, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 30 June 2024 HK$'000 (Unaudited)	As at 31 December 2023 HK$'000 (Audited)
Less than 30 days	**23,903**	22,679
31 to 90 days	**23,060**	25,934
Over 90 days	**8,791**	8,163
	55,754	56,776

11 TRADE PAYABLES

As at 30 June 2024 and 31 December 2023, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 30 June 2024 HK$'000 (Unaudited)	As at 31 December 2023 HK$'000 (Audited)
0 to 30 days	**15,433**	14,185
31 to 60 days	**11,669**	14,552
61 to 90 days	**5,216**	5,513
Over 90 days	**485**	3,615
	32,803	37,865

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group continued to face stiff headwinds during the six months ended 30 June 2024 ("**1H2024**" or the "**Review Period**"), as the retail sector remained under the cloud of a lacklustre economy and consumer confidence still shaky amid persistently high interest rates and a complex geopolitical environment. Compounding matters for the food and beverage industry have been the prevailing outbound travel trend, with Hong Kong residents choosing to travel and spend their income in neighbouring Mainland China cities. Against an adverse economic backdrop, the Group's total revenue declined to HK$308.0 million, down 7.1% from HK$331.7 million recorded for the six months ended 30 June 2023 ("**1H2023**"). Gross profit contracted by 6.4% to HK$181.5 million (1H2023: HK$193.9 million). However, the gross profit margin edged up by 0.4 percentage point to 58.9% (1H2023: 58.5%), owing to the Group's successful efforts in cost control and enhancing manufacturing efficiency. During the Review Period, the Group implemented various measures to effectively reduce selling, administrative and other corporate/operating expenses. Consequently, the Group was able to narrow the loss attributable to owners of the Company by 17.9% to HK$7.9 million in the first half of 2024 (1H2023: loss of HK$9.6 million).

Despite the headwinds, the Group remains in a healthy financial state and has stable operating cash flows. It has sufficient cash and cash equivalents as well as unutilised banking facilities amounting to approximately HK$79.4 million and HK$30.2 million, respectively, as at 30 June 2024 (31 December 2023: HK$88.5 million and HK$44.7 million, respectively).

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

Continuing its position as principal revenue contributor for the Group, the Hong Kong retail business generated HK$236.3 million (1H2023: HK$251.7 million) in segment revenue during the Review Period, down 6.1% from the corresponding period last year, and accounted for 76.7% of the Group's total revenue. The operating environment of the Hong Kong retail sector remained challenging as residents have flocked north to spend their leisure time while inbound tourism has yet to reach pre-pandemic levels. While this inevitably affected traffic to the Group's stores which in turn impacted on same-store sales, we continue to see opportunities for growth and are taking proactive steps to navigating the challenges. Segment profit increased by 39.6% to HK$5.3 million (1H2023: HK$3.8 million), mainly attributable to an improvement in gross profit margin and reduction in administrative expenses.

While adopting a more prudent approach towards shop openings and has been strategically optimising its store network, the Group has maintained its position as the largest herbal retailer in Hong Kong based on retail network. As at 30 June 2024, there were 108 self-operated shops in the city, including 8 HFT Life café concept stores ("**HFT Life**").

To drive store traffic and tap new revenue streams, the Group implemented strategic initiatives during the Review Period, including ongoing optimisation of its product portfolio and expansion of sales network.

With respect to optimising its product portfolio, the Group introduced new items such as the Hemp Seed Latte (火麻仁拿鐵) at HFT Life. It also sought to cater for the evolving needs of health-conscious consumers and vegetarians by adding a plant-based option to the Group's postpartum confinement product series, namely, the Home-Made Tangerine Peel and Ginger in Sweet Vinegar (自家老陳皮素薑醋).

As for sales network expansion, the Group actively sought joint-promotion opportunities to increase brand exposure and footfall. This included collaborating with various telecommunications companies and continuing to provide exclusive offers to customers of different banking institutions.

In regard to broadening market reach to capture opportunities from various market segments, the Group initiated a promotion strategy that focused on bolstering sales from tourists. This involved the leveraging of diverse social media platforms such as Xiao Hong Shu（小紅書）, Tik Tok（抖音） to disseminate and promote the unique product offerings under the Hung Fook Tong brand. The Group also exerted tremendous effort on strengthening the loyalty of JIKA CLUB (自家 CLUB) members by curating highly customised membership experiences. In addition, the Group continued to provide exclusive offers to reward its valued customers under its loyalty programmes. Moreover, it launched an official WhatsApp account to enhance customer engagement and communication. As a result, JIKA CLUB memberships rose to over 1,398,000 as at 30 June 2024, or an increase of approximately 40,000 members during the Review Period. The number of Hung Fook Tong mobile application ("**APP**") downloads has increased as well, up by 19% year-on-year, with 40% of total member transactions completed through the APP. Additionally, over 90% of coupon were redeemed by JIKA CLUB members via e-format.

It is worth noting that the Group's JIKA ON! (自家 ON!) online marketplace is undergoing an optimisation exercise that will lead to updated product offerings, which will go towards promoting return visits and patronage.

Wholesale

The wholesale operation experienced a decline in revenue, slipping 10.4% to HK$71.7 million (1H2023: HK$80.0 million), and accounted for 23.3% of the Group's total revenue. The segment profit, meanwhile, dropped by 7.0% to HK$8.8 million (1H2023: HK$9.4 million). The contraction reflects the weak sentiment of consumers in Hong Kong and Mainland China during the Review Period.

Hong Kong

In Hong Kong, the wholesale segment registered a 7.6% decline in revenue to HK$61.5 million (1H2023: HK$66.6 million), amid a downturn in market demand during the Review Period. In a bid to stimulate development of the Hong Kong operation, the Group further enriched its product portfolio and launched various promotions to better meet customers' diverse preferences and needs for healthy products. In partnership with PARKnSHOP, the Group launched a number of new products, such as wolfberry soy sauce (杞子豉油) and two new flavours for their "Slash New Generation Herbal Tea" series, which use natural herbal formulas and feature fruity aromas. The Group also unveiled new packaging for five of its low-sugar and sugar-free products to better capture the attention of health-conscious consumers.

Mainland China

In Mainland China, consumer confidence remained downbeat, dragged by the stagnant property and stock markets, heightened employment pressure and weak economic outlook. Affected by the lacklustre economic conditions and fierce market competition, revenue from the Group's wholesale business in Mainland China declined 24.1% to HK$10.2 million (1H2023: HK$13.4 million). Nonetheless, the Group has expanded the reach of its products by forging closer partnership with key accounts and a major distributor. Consequently, long shelf-life and fresh beverage products are now available at over 15,000 convenience stores across 13 provinces, including in cities such as Guangzhou, Dongguan, Shenzhen and Shanghai, as well as various supermarkets and department stores. The Group has also tapped more local supermarkets by leveraging ties with relevant partners.

Mindful of today's tech-savvy consumers, the Group has continued to devote resources into promoting sales at flagship stores on popular online platforms such as JD.com (京東), Tmall (天貓), Tmall overseas (天貓海外), Tik Tok (抖音) and Xiao Hong Shu (小紅書) online stores. Moreover, it has introduced sugar-free products to diversify the local product portfolio and cater for the nation's growing demand for healthier food and drink options.

Other Markets

In line with the Group's strategy of targeting overseas Chinese communities, it has sought to further tap such markets as the United States, Canada, Australia, the United Kingdom, Malaysia and Singapore. This resulted in moderate business growth during the Review Period with the Southeast Asia region experiencing the highest rebound.

PROSPECTS

The business environment for retailers in Hong Kong is expected to remain complex and challenging, with little to no signs of recovery in the second half of 2024. Contributing factors include slow economic growth, change in consumption pattern and reduced spending power of tourists. In Mainland China, the slowdown in consumption and overall economic growth, combined with increasingly intense market competition, will continue to present obstacles to the Group's operations. The Group will therefore adopt a cautious approach and prioritise financial prudence. It will optimise cost and capital structures to maintain healthy cash flow and a low gearing ratio to minimise interest costs. At the same time, the Group will seek to return to a growth trajectory by actively pursuing new revenue sources and enhancing its market presence. This will involve focusing efforts on diversifying its product portfolio, further expanding sales channels, and pursuing cross-brand collaborations and new opportunities in Mainland China – especially the Greater Bay Area, and overseas markets. Through such efforts, the Group is confident in its ability to weather the challenging operating environment and outperform the broader market.

Hong Kong Retail

The Group will also diversify product offerings so that they align with the evolving retail landscape. To tap the dietary needs of women in pregnancy and new mothers, the Group will further promote confinement meals and other food items. The Group will also develop more ambient temperature products that are easy to carry and consume, hence are suitable for gift giving as well. Similarly, HFT Life will continue to introduce more novel food and drink items to broaden its product offerings and appeal to evolving tastes. On the JIKA CLUB front, it will seek to increase memberships and enhance customer loyalty by introducing exciting new promotions, including the use of popular cartoon characters in the launch of special edition packaging and merchandise.

Taking into consideration the slow recovery of the retail market, the Group will continuously review its store network and strive to maintain an effective retail footprint. The Group will keep a close eye on operations, and will carefully consider closing underperforming stores. It will also continue to proactively negotiate with landlords for better lease terms, having achieved progress in this regard during the Review Period. Overall, the Group will rigorously implement cost controls so that margins and profits are well maintained.

Wholesale

As for the wholesale operation in **Hong Kong**, the Group will explore more cross-brand partnerships in developing products and marketing campaigns. The Group will also seek to introduce more healthy beverage options, including sugar-free or low-sugar drinks.

Regarding the **Mainland China** market, the Group will deliver a greater variety of sugar-free and ginseng products to convenience stores and supermarkets to suit the tastes of local consumers.

In respect of **other markets**, the Group will maintain close communication with suppliers in the United Kingdom and Southeast Asia with the goal of seizing more market opportunities.

CONCLUSION

Despite the persistent macroeconomic uncertainties, the Group is fully committed to strengthening its market position and diversifying its revenue streams. It will closely monitor the dynamic environment and will be agile and responsive in navigating the changing retail landscape. Leveraging its brand equity, diversified product offerings and customer-centric approach, The Group is confident in its ability to overcome the current market forces, emerge stronger and create sustainable value over the long term for its shareholders.

FINANCIAL REVIEW

Revenue

In 1H2024, the number of Hong Kong residents traveling abroad increased significantly compared to the same period last year. This, coupled with shifting consumption patterns among both visitors and local residents, has had an adverse impact on our business performance. The Group's revenue amounted to HK$308.0 million, representing a decrease of 7.1% from HK$331.7 million in 1H2023. Revenue from Hong Kong retail operations declined to HK$236.3 million, representing a decrease of 6.1% from HK$251.7 million in 1H2023. Meanwhile, revenue from wholesale business also decreased to HK$71.7 million, representing a decrease of 10.4% from HK$80.0 million in 1H2023.

Cost of Sales

In 1H2024, the Group's cost of sales amounted to HK$126.5 million, representing a decrease of 8.2% from HK$137.8 million in 1H2023. As a percentage of revenue, cost of sales represented 41.1% and 41.5% in 1H2024 and 1H2023 respectively.

Gross Profit and Gross Profit Margin

In 1H2024, the Group's gross profit amounted to HK$181.5 million, representing a decrease of 6.4% from HK$193.9 million in 1H2023. The Group's gross profit margin increased by 0.4 percentage point to 58.9% as compared to 58.5% in 1H2023. This improvement in gross profit margin was achieved through the consolidation of our manufacturing capacity in both Hong Kong and Mainland China.

Staff Costs

In 1H2024, the Group's staff costs amounted to HK$93.7 million, representing a decrease of 10.6% from HK$104.8 million in 1H2023. The staff costs-to-revenue ratio is 30.4% as compared to 31.6% in 1H2023.

Rental Expenses

In 1H2024, 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$50.8 million, representing a decrease of 1.7% from HK$51.7 million in 1H2023 arising from the closed underperforming shops. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 21.5% as compared to 20.5% in 1H2023.

Advertising and Promotion Expenses

In 1H2024, the Group's advertising and promotion expenses amounted to HK$5.6 million, representing a decrease of 4.4% from HK$5.8 million in 1H2023. This accounted for 1.8% in percentage to revenue in both 1H2024 and 1H2023.

Depreciation

In 1H2024, The depreciation of property, plant and equipment of the Group amounted to HK$16.9 million, representing a decrease of 10.0% from HK$18.7 million in 1H2023. The decrease was primarily due to the fact that fewer new shops were opened and less renovation work was performed to existing retail shops as compared with 1H2023. The depreciation-to-revenue ratio is 5.5% as compared to 5.7% in 1H2023.

Loss Attributable to Owners of the Company

For the six-month period ended 30 June 2024, the Group's loss attributable to owners narrowed from HK$9.6 million recorded in the same period of 2023 to HK$7.9 million.

Reflecting the Group's improved financial performance, the loss per share attributable to owners narrowed to HK1.21 cents for the six-month period ended 30 June 2024, down from HK1.47 cents in the corresponding period of the prior year.

Capital Expenditure

Capital expenditure incurred during 1H2024 amounted to HK$5.8 million (1H2023: HK$6.6 million), primarily for revamping of existing retail shops and acquiring production facilities and equipment in Mainland China plants.

Liquidity and Financial Resources Review

As at 30 June 2024, the Group had bank deposits and cash balance amounted to HK$79.4 million (31 December 2023: HK$88.5 million).

As at 30 June 2024, the gearing ratio of the Group was 0.70 (31 December 2023: 0.69), which was calculated based on total debts including bank borrowings and lease liabilities divided by equity attributable to owners of the Company.

As at 30 June 2024, the Group had total banking facilities of HK$70.0 million (31 December 2023: HK$83.1 million) of which HK$39.8 million (31 December 2023: HK$38.4 million) had been utilised.

As at 30 June 2024, the Group's current liabilities exceeded its current assets by HK$139.8 million (31 December 2023: HK$141.0 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons and credits to customers in Hong Kong of HK$142.0 million (31 December 2023: HK$149.0 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$2.2 million (31 December 2023: HK$8.0 million) and current ratio of 1.01 (31 December 2023: 1.04).

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.

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments during the six months ended 30 June 2024.

Foreign Currency Risk

The Group operates mainly in Hong Kong and Mainland China and conducts its business primarily in Hong Kong dollars and Renminbi ("**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.

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 2024, the Group employed approximately 796 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 2024, 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 2024 (for the six months ended 30 June 2023: Nil).

Corporate Governance Code

The Company has complied with the Corporate Governance Code as set out in Appendix C1 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 2024.

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 C3 of the Listing Rules (the "**Model Code**"). For the six months ended 30 June 2024, 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 2024.

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2024 have been reviewed by the external auditor, PricewaterhouseCoopers, 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 2024, 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 2024 interim report of the Company containing all the information required by the Listing Rules will be 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, 23 August 2024

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 Prof. Sin Yat Ming, Mr. Andrew Look and Mr. Yeung Chu Kwong as independent non-executive Directors.