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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 2015

HIGHLIGHTS

- Revenue for the six months ended 30 June 2015 (“1H2015”) showed a mild decline of 2.1% when compared with the six months ended 30 June 2014 (“1H2014”) to HK\$357.4 million.
 - Revenue from retail business recorded revenue of HK\$243.7 million, at a similar level with 1H2014 and accounting for 68.2% of the Group’s total revenue, with our retail network comprising 132 retail shops in Hong Kong and Mainland China as at 30 June 2015.
 - Revenue from wholesale business amounted to HK\$113.7 million, a decline of 4.9% from HK\$119.6 million recorded in 1H2014, with our distribution network now covering 41 cities in 15 provinces, and number of distributors in Mainland China increased to 71.
- Gross profit for 1H2015 amounted to HK\$214.8 million, similar to HK\$220.6 million recorded in 1H2014, and gross profit margin for 1H2015 remained at a satisfactory level of 60.1%.
- Profit attributable to equity holders of the Company for 1H2015 was HK\$1.1 million (1H2014: HK\$4.4 million, and HK\$21.2 million if the one-off listing related expenses and share based compensation expenses related to pre-IPO share options scheme (the “One-off Expenses”) were excluded).
- Basic earnings per share for 1H2015 was HK0.17 cent (1H2014: HK0.94 cent, and HK4.47 cents if the One-off Expenses were excluded).
- While both the profit attributable to equity holders of the Company as well as the basic earnings per share for 1H2015 have recorded a decrease as compared with the corresponding figures of 1H2014, the results have shown a significant improvement as compared with those for the six months ended 31 December 2014. (Note: the loss attributable to the equity holders of the Company and the basic loss per share for the year ended 31 December 2014 were HK\$38.3 million (HK\$14.2 million if the One-off Expenses were excluded) and HK6.82 cents (HK2.53 cents if the One-off Expenses were excluded), respectively).

INTERIM RESULTS

The board of directors (the “Board”) of Hung Fook Tong Group Holdings Limited (the “Company”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2015 together with comparative figures for the corresponding period in 2014.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 30 June	
		2015	2014
	Note	HK\$'000	HK\$'000
Revenue	3, 4	357,374	364,943
Cost of sales		(142,615)	(144,357)
Gross profit		214,759	220,586
Other income	4	1,082	554
Other gains, net	4	20	140
Selling and distribution costs		(33,620)	(32,465)
Administrative expenses		(179,114)	(175,190)
Operating profit		3,127	13,625
Finance income		169	932
Finance costs		(1,192)	(3,147)
Finance costs, net		(1,023)	(2,215)
Profit before income tax		2,104	11,410
Income tax expense	5	(506)	(6,573)
Profit for the period		1,598	4,837
Profit attributable to:			
Equity holders of the Company		1,131	4,442
Non-controlling interests		467	395
		1,598	4,837
Earnings per share for profit attributable to equity holders of the Company			
Basic and diluted (HK cent(s) per share)	6	0.17	0.94

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE
INCOME (CONTINUED)**

		(Unaudited)	
		Six months ended 30 June	
		2015	2014
	<i>Note</i>	HK\$'000	HK\$'000
Other comprehensive income/(loss):			
<i>Items that may be subsequently reclassified to profit or loss</i>			
— Currency translation differences		478	(1,062)
— Release of exchange reserve upon disposal of a subsidiary		<u>—</u>	<u>(338)</u>
Other comprehensive income/(loss), net of tax		<u>478</u>	<u>(1,400)</u>
Total comprehensive income for the period		<u>2,076</u>	<u>3,437</u>
Total comprehensive income attributable to:			
— Equity holders of the Company		1,609	3,041
— Non-controlling interests		<u>467</u>	<u>396</u>
		<u>2,076</u>	<u>3,437</u>
Dividends	7	<u><u>—</u></u>	<u><u>40,000</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		As at 30 June 2015 HK\$'000 (Unaudited)	As at 31 December 2014 HK\$'000 (Audited)
	Note		
Assets			
Non-current assets			
Property, plant and equipment	8	249,353	252,057
Investment property	8	814	829
Leasehold land and land use right	9	32,476	32,987
Prepayments and deposits		21,757	29,683
Deferred income tax assets		3,946	3,905
		<u>308,346</u>	<u>319,461</u>
Current assets			
Inventories		36,136	36,688
Trade receivables	10	62,905	55,068
Prepayments, deposits and other receivables		26,218	24,620
Amounts due from related companies		1,169	1,033
Tax recoverable		8,160	6,600
Pledged bank deposits		23,860	24,326
Bank deposits with original maturity over 3 months		–	10,030
Cash and cash equivalents		85,386	87,685
		<u>243,834</u>	<u>246,050</u>
Total assets		<u><u>552,180</u></u>	<u><u>565,511</u></u>
Equity			
Share capital		6,559	6,557
Share premium		214,999	214,650
Reserves		29,568	28,066
		<u>251,126</u>	<u>249,273</u>
Non-controlling interests		<u>4,777</u>	<u>4,310</u>
Total equity		<u><u>255,903</u></u>	<u><u>253,583</u></u>

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

		As at 30 June 2015 <i>HK\$'000</i> (Unaudited)	As at 31 December 2014 <i>HK\$'000</i> (Audited)
	<i>Note</i>		
Liabilities			
Non-current liabilities			
Provision for reinstatement costs		4,951	4,837
Deferred income tax liabilities		343	342
Bank borrowings		11,133	13,645
Obligation under finance leases		1,349	1,890
		<u>17,776</u>	<u>20,714</u>
Current liabilities			
Trade and bills payables	11	37,771	28,505
Accruals and other payables		65,802	86,822
Provision for reinstatement costs		1,186	2,339
Receipts in advance		111,223	116,252
Bank borrowings		58,691	51,651
Obligation under finance leases		1,070	1,048
Taxation payable		2,758	4,597
		<u>278,501</u>	<u>291,214</u>
Total liabilities		<u>296,277</u>	<u>311,928</u>
Total equity and liabilities		<u>552,180</u>	<u>565,511</u>
Net current liabilities		<u>(34,667)</u>	<u>(45,164)</u>
Total assets less current liabilities		<u>273,679</u>	<u>274,297</u>

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 and snacks in Hong Kong and other parts of the People’s Republic of China (“PRC” for the purpose of this condensed interim financial information) (the “Business”).

The Company has listed its shares on The Stock Exchange of Hong Kong Limited on 4 July 2014.

This condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollars (“HK\$’000”), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

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 2015 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 should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

As at 30 June 2015, the Group’s current liabilities exceeded its current assets by HK\$34,667,000. Included within net current liabilities was non-refundable receipts in advance from customers of HK\$111,223,000 which will reduce gradually over the time of each redemption and are not expected to be settled in cash under normal business circumstances.

The future funding requirements of the Group are expected to be met through the cash flows generated from operating activities and the renewal of the revolving and term credit facility available from various international banks. As at 30 June 2015, there are undrawn facilities amounting to approximately HK\$100,000,000 available to the Group. Based on the Group’s history of its ability to obtain external financing, its operating performance and its expected future working capital requirements, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, the condensed consolidated financial information has 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 2014 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.

Adoption of new accounting policy in the current interim period:

(a) New and amended standards adopted by the Group

The following amendments to standards and interpretation are mandatory for the Group's financial year beginning 1 January 2015:

HKAS 19 (2011) (Amendment)	Defined Benefit plans: Employee Contributions
Annual Improvements Project 2012	Annual Improvements 2010–2012 Cycle
Annual Improvements Project 2013	Annual Improvements 2011–2013 Cycle

These amendments have no material impact to the Group's financial information and only result in changes in disclosures format.

(b) New and amended standards not yet adopted

The following new standards and amendments have been issued but are not effective for the financial year beginning on or after 1 January 2015 and have not been early adopted:

		Effective for annual periods beginning on or after
Annual improvements Project 2014	Annual Improvements 2012–2014 Cycle	1 January 2016
HKAS 1 (Amendment)	Disclosure Initiative	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Classification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants	1 January 2016
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKAS 34 (Amendment)	Interim financial reporting	1 January 2016
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018

Management is in the process of making an assessment on the impact of these standards, amendments and interpretations to existing HKFRSs and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

3 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a customer perspective and assess the performance of the operating segments based on the segment assets, segment revenue and segment results for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as this condensed consolidated interim financial information.

Management has identified three reportable segments based on the Group's business model, namely the (i) Hong Kong Retail; (ii) PRC Retail and (iii) Wholesale.

Segment assets consist primarily of property, plant and equipment, investment property, leasehold land and land use right, inventories, trade receivables, prepayments, deposits and other receivables, pledged bank deposits, bank deposit with original maturity over 3 months and cash and cash equivalents. They exclude deferred income tax assets, amounts due from related companies, tax recoverable and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment and leasehold land and land use right.

Geographically, the management considers the retail, wholesale, distribution of bottled drinks, other herbal products and snacks are mainly located in Hong Kong and the PRC, which the revenue and segment results are determined by the geographical location in which the customer is operated. The assets are determined based on where the assets are located.

Unallocated corporate expenses, finance income and costs, listing-related expense, share based compensation expenses and income tax expenses 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 2015 and 2014 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2015 and 2014 are as follows:

	(Unaudited) Six months ended 30 June 2015			
	Hong Kong retail HK\$'000	PRC retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
Segment revenue	238,409	8,576	117,156	364,141
Less: Inter-segment revenue	(3,288)	–	(3,479)	(6,767)
Revenue from external customers	235,121	8,576	113,677	357,374
Segment results	28,236	(5,810)	3,916	26,342
Corporate expenses				(23,215)
Finance costs, net				(1,023)
Profit before income tax				2,104
Income tax expense				(506)
Profit for the period				1,598
Other segment items:				
Capital expenditure	7,887	–	8,194	16,081
Depreciation	12,429	1,165	3,668	17,262
Interest income	87	1	81	169

3 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	(Unaudited)			
	Six months ended 30 June 2014			
	Hong Kong retail HK\$'000	PRC retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
Segment revenue	237,628	10,100	123,417	371,145
Less: Inter-segment revenue	(2,361)	–	(3,841)	(6,202)
Revenue from external customers	235,267	10,100	119,576	364,943
Segment results	43,390	(2,114)	11,417	52,693
Corporate expenses				(22,315)
Finance costs, net				(2,215)
Listing-related expenses				(16,606)
Share based compensation expenses				(147)
Profit before income tax				11,410
Income tax expense				(6,573)
Profit for the period				4,837
Other segment items:				
Capital expenditure	202,942	1,448	3,027	207,417
Depreciation	6,366	1,162	2,857	10,385
Interest income	642	10	280	932

The segment assets as at 30 June 2015 and 31 December 2014 are as follows:

	Hong Kong retail HK\$'000	PRC retail HK\$'000	Wholesale HK\$'000	Elimination HK\$'000	Total HK\$'000
As at 30 June 2015					
Segment assets	341,203	14,569	179,703	(4,193)	531,282
Amounts due from related companies					1,169
Tax recoverable					8,160
Deferred income tax assets					3,946
Corporate assets					7,623
Total assets					552,180
As at 31 December 2014					
Segment assets	354,335	21,578	171,998	(4,183)	543,728
Amounts due from related companies					1,033
Tax recoverable					6,600
Deferred income tax assets					3,905
Corporate assets					10,245
Total assets					565,511

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 recognised during the six months period is as follows:

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Revenue		
Sale of goods	349,997	357,325
Service income	—	13
Revenue recognised upon expiry of pre-paid coupons and cards	7,377	7,605
	<u>357,374</u>	<u>364,943</u>
Other income		
Rental income	136	132
Franchise income	23	77
Rebate from utility company	560	—
Others	363	345
	<u>1,082</u>	<u>554</u>
Other gains, net		
Gains on disposal of property, plant and equipment	44	140
Others	(24)	—
	<u>20</u>	<u>140</u>

5 INCOME TAX EXPENSE

Hong Kong profits tax and PRC Enterprise income tax ("EIT") has been provided at the rate of 16.5 % and 25%, respectively (six months ended 30 June 2014: 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	
	2015	2014
	HK\$'000	HK\$'000
Current income tax		
— Hong Kong profits tax on profit for the period	—	4,234
— PRC EIT on profit for the period	506	2,339
Income tax expense	<u>506</u>	<u>6,573</u>

6 EARNINGS PER SHARE

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	1,131	4,442
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	655,746	474,000
Adjustments for share options	77	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	655,823	474,000
Earnings per share attributable to equity holders of the Company		
— Basic earnings per share (HK cents)	0.17	0.94
— Diluted earnings per share (HK cents)	0.17	0.94

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

The one ordinary share issued on incorporation and the newly issued shares of 473,999,999 under the subdivision of shares and capitalisation issue pursuant to the shareholder resolutions dated 11 June 2014 are adjusted in the weighted average number of ordinary shares in issue as if the issues had occurred at 1 January 2014, the beginning of the earliest period reported.

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2015 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has share options which may result in dilutive potential ordinary shares. Its calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted earnings per share for the six months ended 2014 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

(c) Adjusted

During the six months ended 30 June 2014, the Group incurred listing-related expenses and share based compensation expenses related to pre-IPO share options scheme. Management is of the opinion that these expense are non-recurring and in order to enable an investor to better understand the Group's results, it is meaningful to present the reconciliation of earnings per share based on profit attributable to equity holders of the Company excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme.

6 EARNINGS PER SHARE (CONTINUED)

(c) Adjusted (Continued)

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	1,131	4,442
Adjustments for:		
Listing-related expenses	–	16,606
Share based compensation expenses in relation to pre-IPO share options scheme	–	147
Adjusted profit attributable to equity holders of the Company excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme	1,131	21,195
Weighted average number of ordinary shares in issue (thousands)	655,746	474,000
Adjusted basic earnings per share excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme (HK cents)	0.17	4.47

7 DIVIDENDS

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Dividends declared and paid	–	40,000

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2015.

Prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, an interim dividend of HK\$40,000,000 was declared and paid by the Company on 11 June 2014 to the then shareholders of the Company pursuant to the resolution of the first extraordinary general meeting for 2014.

8 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

8.1 Property, plant and equipment

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
At 1 January	252,057	44,505
Additions	16,081	41,934
On acquisition of Taclon Industries Limited ("Taclon Acquisition")	–	131,783
Disposals	(730)	(64)
Depreciation	(16,736)	(10,169)
Impairment losses	(1,335)	–
Exchange difference	16	(351)
	249,353	207,638

The Taclon Acquisition in March 2014 resulted in an increase in buildings, leasehold improvements, furniture and fixtures, plant and machinery, motor vehicles, office and computer equipment and construction in progress of the Group.

8.2 Investment property

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
At 1 January	829	858
Depreciation	(15)	(15)
	814	843

Investment property situated in Hong Kong is held under lease of over 50 years and rented out under operating lease. The investment property has been pledged to secure general facilities granted to the Company.

9 LEASEHOLD LAND AND LAND USE RIGHT

	(Unaudited)	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
At 1 January	32,987	–
Taclon Acquisition	–	33,700
Depreciation	(511)	(201)
	32,476	33,499

The Taclon Acquisition in March 2014 resulted in increase in leasehold land of the Group.

10 TRADE RECEIVABLES

	As at 30 June 2015 <i>HK\$'000</i> (Unaudited)	As at 31 December 2014 <i>HK\$'000</i> (Audited)
Trade receivables	64,637	56,800
Less: Provision for impairment of trade receivables	(1,732)	(1,732)
Trade receivables, net	<u>62,905</u>	<u>55,068</u>

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 30 June 2015 and 31 December 2014, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 30 June 2015 <i>HK\$'000</i> (Unaudited)	As at 31 December 2014 <i>HK\$'000</i> (Audited)
Less than 30 days	29,540	22,154
31–90 days	24,604	24,033
Over 90 days	8,761	8,881
	<u>62,905</u>	<u>55,068</u>

11 TRADE AND BILLS PAYABLES

At 30 June 2015 and 31 December 2014, the ageing analysis of the trade and bills payables, based on invoice date is as follows:

	As at 30 June 2015 <i>HK\$'000</i> (Unaudited)	As at 31 December 2014 <i>HK\$'000</i> (Audited)
0–30 days	16,910	19,398
31–60 days	13,611	7,430
61–90 days	6,058	1,211
Over 90 days	1,192	466
	<u>37,771</u>	<u>28,505</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The board of directors (the “Board”) of Hung Fook Tong Group Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2015 (“1H2015”). During 1H2015, with a slowing down in economic growth in Mainland China, closure of underperforming retail shops in Shanghai as the Group directed its focus on Guangzhou, and weak retail climate in Hong Kong, all of these factors impacted on the Group’s performance. Revenue consequently totalled HK\$357.4 million, representing a modest decline of 2.1% when compared with the six months ended 30 June 2014 (“1H2014”). Nonetheless, it is worth noting that the Group was able to achieve a turnaround in its performance when compared with the second half of 2014. This was realised by increasing the selling price of certain products and the successful implementation of cost saving measures among other efforts. Consequently, a gross profit of HK\$214.8 million was reported, while the gross profit margin remained at a satisfactory level of 60.1%.

During 1H2015, a profit attributable to equity holders of the Company of HK\$1.1 million was recorded, thus successfully transitioning from a net loss position of HK\$38.3 million (net loss of HK\$14.2 million with the exclusion of the listing-related expenses and share based compensation expenses related to pre-IPO share options scheme (the “One-off Expenses”)) recorded for the year ended 31 December 2014. However, the figure represented a significant decline of 74.5% (94.7% with the exclusion of the One-off Expenses) when compared with the corresponding period of last year, and was partly due to one-off expenses related to trial production activities at the Suzhou plant, increase in depreciation expenses associated with the Tai Po plant and rise in operating costs at the front line level arising from an expanded retail network. Both the Tai Po and Suzhou plants are nevertheless essential for facilitating business growth and ensuring the quality of the Group’s product, hence worthwhile investments for its future.

It is further worth noting that the Group has maintained solid fundamentals with a healthy financial position. As of 30 June 2015, it had cash and cash equivalents of HK\$85.4 million, with a gearing ratio of 28.8%. Cash flow remained healthy with net cash generated from operating activities.

Retail

During 1H2015, the retail business recorded revenue of HK\$243.7 million — a similar level with 1H2014 — and accounted for 68.2% of the Group’s total revenue. Segment profit declined to HK\$22.4 million (1H2014: HK\$41.3 million).

Hong Kong

The Hong Kong retail operation generated revenue of HK\$235.1 million, which is similar to the corresponding period of last year (1H2014: HK\$235.3 million). Weak consumption sentiment slightly impacted on same-store sales performance, though its impact was mitigated by an increase in the number of retail shops. The Hong Kong retail operation remained the primary revenue contributor to the Group.

With the opening of five new shops in Hong Kong during 1H2015, and therefore the operation of 111 shops in total as at 30 June 2015, the Group remained the largest player in the industry based on size of retail network. The Group continued to tap new regions of the city, with new shops opened mainly on Hong Kong Island, including Central, Sheung Wan and Ap Lei Chau, or within shopping malls in high-traffic residential areas.

Effective control of raw material costs contributed to a stable gross profit margin level, though segment profit declined by 34.9% as compared to 1H2014 to HK\$28.2 million due to additional rental and staff costs incurred from newly opened shops. Such shops have yet to reach optimal sales levels.

To encourage greater sales, the Group has continued to introduce innovative products complemented by enticing marketing campaigns. 25 new products were launched during 1H2015, including more rice, noodles and snacks that go towards addressing consumers' needs for product variety. Having tapped the new mothers market by offering trotters in sweet vinegar sauce, the product has achieved satisfactory year-on-year sales growth of nearly 30.0% during 1H2015. Also to encourage sales is the JIKA CLUB, which during 1H2015, recruited close to 50,000 new members, thus raising total membership to around 490,000 as at 30 June 2015.

Mainland China

Revenue derived from the Mainland China retail business declined by 15.1% year-on-year to HK\$8.6 million as the Group strategically exited the Shanghai market; closing all underperforming shops and concluding its ties with a joint venture partner. Since the closure of shops incurred associated one-off expenses, and the scale of operations has yet to reach an optimal scale, the Mainland China operation incurred a segment loss of HK\$5.8 million.

The Group has directed its resources towards consolidating its position in Southern China, particularly Guangdong, with a total of 20 retail shops in operation in Guangzhou as of 30 June 2015. Nearly all of the shops have achieved operational breakeven point, which is a reflection of rising brand awareness among the general public, specifically, their acknowledgement of Hung Fook Tong as a leading Hong Kong brand.

Wholesale

Revenue generated from the Group's wholesale operation, which involves long shelf-life drinks and fresh drinks, amounted to HK\$113.7 million, a decline of 4.9% from HK\$119.6 million recorded in the corresponding period of last year. Owing to an increase in staff cost from an expanded sales team and one-off expenses related to trial production at the Suzhou plant, profit from the segment declined to HK\$3.9 million (1H2014: HK\$11.4 million). The investment in a stronger sales team as well as a new production plant is considered necessary as it will facilitate the Group's business development and efficiency in the long run.

Mainland China

A combination of weak consumption sentiment and keen competition in the PRC beverage market were among the factors that led the Mainland China wholesale business to report a 10.4% year-on-year decline in revenue to HK\$46.6 million. More specifically, the shutdown of several retailers in Dongguan and the temporary termination of ties with a key customer in Beijing contributed to the decline. The Group is currently in negotiations with the aforementioned customer to resume the business relationship, which would leverage a stronger local sales team.

Mindful of the difficult conditions, the Group sought to secure more key accounts and fortify ties with all of its customers. Correspondingly, the Group extended its distribution coverage from 39 cities to 41 cities in 15 provinces, expanding to Ningbo and Zhenjiang during 1H2015 and number of distributors in Mainland China increased to 71. In the key Guangdong market, the Group was able to convert a client that operates a national network of high-end supermarkets into a key account customer with direct management. This resulted in a year-on-year rise in revenue of 23% from the Shenzhen market. The Group has been able to further penetrate the Guangzhou and Shenzhen markets through greater sales and marketing efforts, subsequently reaching an additional 3,500 local outlets.

The Group remains committed to tapping the northern China market as well, which is reflected by the establishment of a new office in Beijing that has commenced operation; serving as a base for enhancing its exposure in more cities. Currently, the Group's wholesale presence includes the markets of Shandong, Liaoning and Heilongjiang, where many of its fresh drinks are available to consumers.

During 1H2015, the Group introduced the Salted Drink Series in selected PRC cities. The series includes the Salted Lime Drink (咸青檸) and Salted Mandarin with Mandarin Pulps(粒粒咸柑桔), both of which have been popular among Hong Kong consumers.

Hong Kong

Despite fierce competition, the Hong Kong wholesale business, which includes overseas markets, recorded revenue of HK\$67.0 million during 1H2015, which is comparable to the corresponding period of last year (1H2014: HK\$67.5 million). In maintaining its leading position in the market, the Group offered more attractive sales incentives such as bulk purchase discounts and extended ties to more non-chain retailers. It also directed greater energy towards engaging the youth segment by employing social media platforms, which included the introduction of appealing games via Facebook.

Production Facilities

The Tai Po plant in Hong Kong has been in operation since the end of 2014, producing a wide range of products that are sold locally. While the plant is highly automated and efficient, the management has continued to invest resources in improving production procedures, which leads to better hygiene and longer product shelf life of the Group's products. As part of the ramp up of the Tai Po plant, the automated production line dedicated to the fresh Deluxe Drinks series (甘露系列) will commence operation in the second half year.

In respect of the Suzhou plant, which has been in operation since April 2015 mainly contributing drinks to the wholesale business in Shanghai, allowed the Group to benefit from greater efficiency due to its advantageous geographical location. As the plant continues to achieve higher utilisation rate, it will be leveraged by the management to further expand the wholesale business in the eastern and northern parts of Mainland China.

PROSPECTS

The outlook for the retail industry is expected to remain challenging as consumption sentiment has been waning since the end of 2014. With the economic outlook both in Mainland China and Hong Kong continuing to be lacklustre, the former achieving GDP growth of 7.0% in the second quarter of 2015 while retail sales in the latter is expected to achieve only 5.0% growth in 2015 according to industry forecasts, consumer confidence will invariably be affected.

Despite the less than favourable outlook, the management remains cautiously optimistic about the Group's performance given that retail sales momentum generated since the second quarter of 2015 continued to build in July and August as consumer confidence on its products rises, and because summer is the traditional peak season for its drink products. The management therefore expects the Group will further improve entering the second half of 2015 compared with the first six months.

Improving all facets of the Group's operation is paramount. Mindful of this, the management will continue to focus on controlling costs, having made progress in managing raw material costs during the first half year. It is worth noting that while HK\$2.5 million associated with the trial production at Suzhou plant has been incurred by the Group during 1H2015, no further associated cost is expected to be incurred by the Group in the remaining financial year.

As a means of enhancing management efficiency as well as reducing rent at the corporate level, the Group is relocating its headquarters from Tsuen Wan to Tai Po during the third quarter of this year. It will be located in the same site where the Group's new production plant is situated.

Retail

In Hong Kong, the Group will seek to sustain the growth momentum experienced since the second quarter of 2015. To do so, new shop openings are in the pipeline, and the management remains confident in meeting its goal of opening ten new shops by year end, having already opened five shops thus far and secured four other premises. Such efforts are consistent with the management's strategy of prudently expanding to bolster the Group's geographical presence and capture greater market share.

With reference to the Group's existing shops, the management will strive to improve their performance by employing a number of tools, including marketing campaigns, promotional events and engaging the youth segment by leveraging its popular celebrity brand ambassador Mr Alfred Hui. The management's primary objectives will be to improve average sales per shop and to bring same-store sales back on a path of growth.

The Group will likewise seek to strengthen its presence in Mainland China, in particular, Guangdong. Correspondingly, the management has secured three premises located at metro stations where there is high pedestrian traffic, and will continue to identify more suitable locations. The Group will direct its efforts and investments in this key southern market with the ultimate objective of enhancing management of the Mainland China retail business over the long term.

Wholesale

With regard to the wholesale operation in Mainland China, in addition to converting potential national retailers to key accounts, the management will continue to actively engage key distributors in order to enter still more cities across the country, particularly second and third-tier Guangdong cities. Already, the management is in negotiations with several potential key customers to achieve such a goal.

To stimulate sales, the Group plans to introduce hot drinks in the eastern and northern region of China during the traditionally quiet winter season. For the northern region in particular, the Group has leveraged its new base in Beijing to set up a more experienced sales team who will strategise and implement plans for expanding the northern sales network. The associated staff cost to revenue ratio is set to decrease as efficiency improves, which will lead to greater margin. Complementing the network expansion will be the Suzhou plant which, through higher efficiency of logistic operations and inventory control, will help support the management's objectives in the region.

Also helping the Group's efforts in penetrating the Mainland China market will be its product ambassador, Mr. Ekin Cheng. By promulgating the 'Hong Kong brand, Hong Kong taste' motto of the Group, the associated marketing campaigns will both assist in highlighting the premium nature of the Group's products among the targeted middleclass consumers and differentiate the Hung Fook Tong brand from its rivals. Recognising the potential of e-commerce, the Group will continue to partner with popular e-retailers, having already received good response from the general public. Along with more product sampling activities conducted at different sales locations, commercial areas, schools, etc, the Group aims to further raise brand awareness.

In Hong Kong, the Group will continue to focus on product innovation, which, during the second half of 2015 will include the launch of more drink flavours that are available in 1-litre containers. This will be followed by the introduction of the Salted Drink Series in 2016. In terms of sales network, the management will reinforce its ties with third-party retailers; targeting to extend the Group's product presence to more shelves as well as further expand its coverage among non-chain stores. To encourage public patronage, the Group will enhance its presence on online channels as well as use the social media to promote its products in a youth-friendly manner.

For the overseas market, the management will seek to enter new countries and territories in the future, including Thailand and Taiwan.

Conclusion

The remainder of 2015 is expected to be challenging for retailers, both in Mainland China and Hong Kong. Nonetheless, the Group will seek progress by being responsive to changing market trends; capitalising on its ability to innovate and introduce appealing products that adhere to its “Naturally Made, Wholeheartedly Good” motto. By leveraging its two-pronged sales channel, effective marketing strategies and veteran management team, Hung Fook Tong is committed to consolidate its no. 1 position in Hong Kong while at the same time enhancing its performance in Mainland China.

Awards and Corporate Social Responsibility

In recognition of the Group’s long-standing efforts to raise brand awareness, bolster relations with stakeholders such as customers and employees, and support charitable works, the Group has been honoured with the following awards and accolades during the six months ended 30 June 2015:

Organisation	Award
The Hong Kong Council of Social Service	Caring Company 2006–2015
East Week	Hong Kong Service Awards 2015
Superbrands	Superbrands 2015
7-Eleven	2014 Outstanding Sales Performance Awards within a category — Beverages
Reader’s Digest	Trusted Brands 2015 — Platinum Award (Chinese Soup/Herbal Tea Shop)
The Hong Kong Productivity Council	Happiness-at-Work 2015
Employees Retaining Board	ERB Manpower Developer Award Scheme: Manpower Developer (2011–17)
The Hong Kong Council of Social Service	Silver Emblem Recognition

In line with the Group’s values which, at their core, encourage living a natural and healthy life, it is an advocate and champion of corporate social responsibility. Along with forming volunteer teams to participate in charitable events, the Group supported more than 50 non-profit organisations and institutions through the donation of in-kind products and coupons during the six-month ended 30 June 2015. This included the donation of over 30,000 food coupons to support “The Community Chest Skip Lunch Day”, which raised HK\$1.9 million — the sixth consecutive year of the Group’s involvement.

Aside from directly assisting the general public, the Group is also a firm supporter of environmental protection. Certain Hung Fook Tong retail shops have been contributing surplus food to several food donation drives, and an incentive programme for encouraging the recycling of tortoise herbal jelly containers from members has been underway. Such efforts will go towards easing the waste problem.

FINANCIAL OVERVIEW

Revenue

For the six months ended 30 June 2015, the Group's revenue amounted to HK\$357.4 million, representing a decrease of 2.1% from the HK\$364.9 million recorded in the corresponding period in 2014. This decrease was mainly attributable to a 15.1% decrease in PRC retail sales, arising from the closure of the Group's four retail shops in Shanghai by the end of June. PRC wholesales also posted a decrease of 10.4%, as a result of the general economic slowdown and keen competition in the beverage market in the PRC.

Cost of Sales

For the six months ended 30 June 2015, the Group's cost of sales amounted to HK\$142.6 million, representing a decrease of 1.2% from HK\$144.4 million for the corresponding period in 2014. As a percentage of revenue, cost of sales represented 39.9% and 39.6% in 2015 and 2014 respectively.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2015, the Group's gross profit amounted to HK\$214.8 million, similar to the gross profit of HK\$220.6 million recorded for the corresponding period in 2014. The Group's gross profit margin remained stable, at 60.1% as compared to 60.4% for 1H2014.

Staff Costs

For the six months ended 30 June 2015, the Group's staff costs amounted to HK\$109.0 million, representing an increase of 7.9% from HK\$101.0 million in the corresponding period of 2014. The increase was primarily due to the recruitment of additional staff for newly opened shops in Hong Kong and production plant in Suzhou. The staff cost-to-revenue ratio, at 30.5%, as compared to last year's figure of 27.7%.

Rental Expenses

For the six months ended 30 June 2015, the Group's rental expenses amounted to HK\$55.4 million, representing an increase of 15.7% from HK\$47.9 million in the corresponding period of 2014. These rises are due to the fact that five new shops were opened during 1H2015, while rent increases took effect when rental agreements for some existing shops were renewed. Rental-to-revenue ratio rose to 15.5%, from 13.1% for 1H2014.

Advertising and Promotion Expenses

For the six months ended 30 June 2015, the Group's advertising and promotion expenses amounted to HK\$12.5 million, representing a decrease of 12.0% from HK\$14.2 million in the corresponding period of 2014. This accounted for 3.5% in percentage to revenue for the period, as compared to 3.9% in 1H2014. Due to an unpredictable volatile market, the Group was more conservative in controlling marketing expenses during the period.

Depreciation

For the six months ended 30 June 2015, depreciation amounted to HK\$17.3 million, representing 4.8% of the Group's revenue (1H2014: HK\$10.4 million and 2.9% respectively). The increase was mainly due to the commencement of operations of the Group's new plants in Tai Po and Suzhou.

Net Profit

Profit attributable to equity holders of the Company for the six months ended 30 June 2015 amounted to HK\$1.1 million. By comparison, profit for the previous period (excluding the One-off expenses of HK\$16.8 million) amounted to HK\$21.2 million. Net profit year-on-year thus decreased by 94.7%. The net profit margin (calculated as profit for the period as a ratio of revenue) for the six months ended 30 June 2015 was 0.4%, as compared to 5.9% for the same period last year.

Basic earnings per share for the period amounted to HK0.17 cent, as compared to the previous period's figure of HK0.94 cent (HK4.47 cents when the One-off expenses were excluded).

Capital Expenditure

During the six months ended 30 June 2015, the Group incurred HK\$16.1 million in capital expenditure. This amount was used mainly for the opening of new shops, the revamping of existing retail shops and the production facilities in Suzhou and Tai Po plant.

Liquidity, Financial Resources Review

The Group remains financially sound, with bank deposits and cash holdings amounting to HK\$109.2 million as at 30 June 2015 (31 December 2014: HK\$122.0 million). Most bank deposits and cash holdings are denominated in Hong Kong dollars and Renminbi.

As at 30 June 2015, the Group had bank and other borrowings amounting to HK\$69.8 million (31 December 2014: HK\$65.3 million); no financial instruments were being used for hedging purposes.

As at 30 June 2015, the gearing ratio of the Group was 0.29 (31 December 2014: 0.27), calculated based on total debts (defined to include interest-bearing bank borrowing and finance lease) divided by total equity attributable to equity holders.

We aim to maintain flexibility in funding by keeping sufficient bank balances, and available credit lines so that we are able to carry on 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 the PRC and conducts business primarily in Hong Kong dollars and Renminbi. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi and the United States dollar. The Group will continue to take proactive measures and monitor its exposure to the movements of these currencies closely.

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals or significant investment during the six months ended 30 June 2015.

Contingent Liabilities

- (i) Taclon Industries Limited (“Taclon”), a subsidiary of the Company, is involved in a potential litigation the claim of which amounted to approximately HK\$10.3 million (the “Alleged Debt”). It is the understanding of the directors of the Company (the “Directors”) that the Alleged Debt is a personal debt belongs to a Taclon’s ex-director. The Directors are of the view that Taclon did not or does not owe the claimant the Alleged Debt and will vigorously defend the Taclon’s position in the legal proceeding. Moreover, AC Alliance Investment Limited (formerly known as Hung Fook Tong Industrial Co. Limited), a related company outside the Group, had confirmed, covenant and undertaken to indemnify and keep indemnified fully Taclon against any cost, loss or damages arising from the litigation.
- (ii) Taclon has several pending litigations and claims with its former employees of which provision of approximately HK\$1,000,000 has been provided as at 30 June 2015.

OTHER INFORMATION

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2015.

Prior to the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited, an interim dividend of HK\$40,000,000 was declared and paid by the Company on 11 June 2014 to the then shareholders of the Company pursuant to the resolution of the first extraordinary general meeting for 2014.

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”) for the six months ended 30 June 2015.

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 2015, all of the Directors confirmed that they have complied with the required standards set out in 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 and internal control system of the Group, including the review of the unaudited interim financial information for the six months ended 30 June 2015.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the interim financial information for the six months ended 30 June 2015 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 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

Publication of Interim Results and Interim Report

The electronic version of this announcement will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.hungfooktong.com). The 2015 interim report of the Company containing all the information required by the Listing Rules will be dispatched to its shareholders and published on the above websites in due course.

On behalf of the Board of
Hung Fook Tong Group Holdings Limited
TSE Po Tat
Chairman

Hong Kong, 21 August 2015

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