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 2016

HIGHLIGHTS

- Revenue for the six months ended 30 June 2016 ("1H2016") declined by 2.6% when compared with the six months ended 30 June 2015 ("1H2015") from HK$357.4 million to HK$347.9 million.
  - — Revenue from retail business amounted to HK$258.9 million, increased by 6.2% compared with 1H2015 and accounting for 74.4% of the Group's total revenue, with our retail network comprising 133 retail shops in Hong Kong and Mainland China as at 30 June 2016.
  - — Revenue from wholesale business amounted to HK$89.0 million, a decline of 21.7% from HK$113.7 million recorded in 1H2015, with our distribution network now covering 46 cities in 16 provinces, and number of distributors in Mainland China increased to 78.
- Gross profit for 1H2016 increased to HK$216.4 million (1H2015: HK$214.8 million), and gross profit margin for 1H2016 increased to a satisfactory level of 62.2%.
- Profit attributable to owners of the Company for 1H2016 was HK$1.4 million (1H2015: HK$1.1 million).
- Basic earnings per share for 1H2016 was HK0.22 cent (1H2015: HK0.17 cent).

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 2016 together with comparative figures for the corresponding period in 2015.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited) Six months ended 30 June	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Revenue	*3,4*	**347,933**	357,374
Cost of sales	*5*	**(131,503)**	(142,615)
Gross profit		**216,430**	214,759
Other income	*4*	**492**	1,082
Other (losses)/gains, net	*4*	**(443)**	20
Selling and distribution costs	*5*	**(35,813)**	(33,620)
Administrative expenses	*5*	**(177,857)**	(179,114)
Operating profit		**2,809**	3,127
Finance income		**139**	169
Finance costs		**(1,236)**	(1,192)
Finance costs, net		**(1,097)**	(1,023)
Profit before income tax		**1,712**	2,104
Income tax expense	*6*	**(383)**	(506)
Profit for the period		**1,329**	1,598
Profit attributable to:			
Owners of the Company		**1,420**	1,131
Non-controlling interests		**(91)**	467
		1,329	1,598
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (HK cent per share)	*7*	**0.22**	0.17

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	(Unaudited) Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Other comprehensive (loss)/income:		
Item that may be reclassified to profit or loss		
— Currency translation differences	**(726)**	478
Other comprehensive (loss)/income, net of tax	**(726)**	478
Total comprehensive income for the period	**603**	2,076
Total comprehensive income/(loss) attributable to:		
— Owners of the Company	**770**	1,609
— Non-controlling interests	**(167)**	467
	603	2,076

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016 HK$'000 (Unaudited)	As at 31 December 2015 HK$'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	*9*	**234,393**	242,102
Investment property	*9*	**785**	800
Leasehold land	*10*	**31,454**	31,965
Prepayments and deposits		**21,217**	19,764
Deferred income tax assets		**4,277**	4,290
		292,126	298,921
Current assets			
Inventories		**30,772**	30,102
Trade receivables	*11*	**62,061**	64,320
Prepayments, deposits and other receivables		**32,124**	29,458
Amounts due from related companies		**748**	822
Tax recoverable		**4,071**	4,084
Pledged bank deposits		**2,528**	15,007
Bank deposits with original maturity over 3 months		**1,373**	4,097
Cash and cash equivalents		**109,983**	127,410
		243,660	275,300
Total assets		**535,786**	574,221
Equity			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Share premium		**214,999**	214,999
Reserves		**35,197**	34,427
		256,755	255,985
Non-controlling interests		**2,654**	2,821
Total equity		**259,409**	258,806

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at 30 June 2016 HK$'000 (Unaudited)	As at 31 December 2015 HK$'000 (Audited)
Liabilities			
Non-current liabilities			
Provision for reinstatement costs		**3,769**	4,027
Deferred income tax liabilities		**326**	326
Bank borrowings		**28,624**	37,722
Obligation under finance leases		**233**	797
		32,952	42,872
Current liabilities			
Trade payables	*12*	**34,983**	28,925
Accruals and other payables		**60,436**	65,776
Provision for reinstatement costs		**2,472**	2,233
Receipts in advance		**121,558**	122,743
Bank borrowings		**19,701**	47,861
Obligation under finance leases		**1,116**	1,093
Taxation payable		**3,159**	3,912
		243,425	272,543
Total liabilities		**276,377**	315,415
Total equity and liabilities		**535,786**	574,221
Net current assets		**235**	2,757
Total assets less current liabilities		**292,361**	301,678

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 the People's Republic of China excluding Hong Kong (the "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.

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 2016 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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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 2015, 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)

Adoption of new accounting policy in the current interim period:

(a) New and amended standards adopted by the Group

The following amendments to standards, amendments and interpretation and annual improvements have been adopted by the Group for the first time for the financial year beginning on 1 January 2016:

Annual improvements Project 2014	Annual Improvements 2012–2014 Cycle
HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Classification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

These amendments have no material impact to the Group's financial information and only results 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 2016 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Lease	1 January 2019

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 (1) Hong Kong Retail; (2) PRC Retail and (3) Wholesale.

Segment assets consist primarily of property, plant and equipment, investment property, leasehold land, 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 for the six months ended 30 June 2016 and 2015.

Geographically, management considers the retail, wholesale, distribution of bottled drinks, other herbal products, soups 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. 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 2016 and 2015 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2016 and 2015 are as follows:

	(Unaudited) Six months ended 30 June 2016			
	Hong Kong retail	**PRC retail**	**Wholesale**	**Total**
	HK\$'000	***HK\$'000***	***HK\$'000***	***HK\$'000***
Segment revenue	**256,941**	**6,967**	**91,580**	**355,488**
Less: Inter-segment revenue	**(5,024)**	**–**	**(2,531)**	**(7,555)**
Revenue from external customers	**251,917**	**6,967**	**89,049**	**347,933**
Segment results	**34,602**	**(2,732)**	**(8,041)**	**23,829**
Corporate expenses				**(21,020)**
Finance costs, net				**(1,097)**
Profit before income tax				**1,712**
Income tax expense				**(383)**
Profit for the period				**1,329**
Other segment items:				
Capital expenditure	**4,488**	**545**	**4,414**	**9,447**
Depreciation	**12,979**	**741**	**3,407**	**17,127**
Interest income	**90**	**–**	**49**	**139**

3 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	(Unaudited) Six months ended 30 June 2015			
	Hong Kong retail	PRC retail	Wholesale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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

The segment assets as at 30 June 2016 and 31 December 2015 are as follows:

	Hong Kong retail	**PRC retail**	**Wholesale**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 30 June 2016					
Segment assets	**359,976**	**10,082**	**154,335**	**(3,720)**	**520,673**
Amounts due from related companies					**748**
Tax recoverable					**4,071**
Deferred income tax assets					**4,277**
Corporate assets					**6,017**
Total assets					**535,786**
As at 31 December 2015					
Segment assets	370,621	10,475	174,580	(3,453)	552,223
Amounts due from related companies					822
Tax recoverable					4,084
Deferred income tax assets					4,290
Corporate assets					12,802
Total assets					574,221

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

4 REVENUE, OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

The Group's revenue, other income and other (losses)/gains, net recognised during the six months period is as follows:

	(Unaudited) Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**339,471**	349,997
Revenue recognised upon expiry of pre-paid coupons and cards	**8,462**	7,377
	347,933	357,374
Other income		
Rental income	**156**	136
Franchise income	**55**	23
Rebate from utility company	**–**	560
Others	**281**	363
	492	1,082
Other (losses)/gains, net		
Exchange difference	**(387)**	(24)
(Losses)/gains on disposal of property, plant and equipment	**(56)**	44
	(443)	20

5 EXPENSE BY NATURE

	(Unaudited) Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Cost of inventories sold	**97,585**	110,683
Operating lease rental in respect of retail outlets		
— Minimum rental	**47,716**	45,735
— Contingent rental	**156**	231
Operating lease rental in respect of storage spaces and office premises	**9,674**	9,392
Advertising and promotional expenditure	**13,864**	12,485
Depreciation of property, plant and equipment *(Note 9)*	**16,601**	16,736
Amortisation of leasehold land *(Note 10)*	**511**	511
Depreciation of investment property *(Note 9)*	**15**	15
Communication and utilities	**15,981**	17,151
Employee benefit expenses (including directors' emoluments)	**109,716**	109,009
Provision for obsolete inventories	**–**	164
Provision for impairment of trade receivables	**480**	–
Impairment losses on property, plant and equipment *(Note 9)*	**171**	1,335
Legal and professional fees	**1,773**	2,579
Auditors' remuneration		
— Audit services	**525**	500
— Non-audit services	**166**	174
Repair and maintenance expenses	**5,558**	4,568
Transportation and distribution expenses	**14,980**	14,501
Others	**9,701**	9,580
Total cost of sales, selling and distribution costs and administrative expenses	**345,173**	355,349

6 INCOME TAX EXPENSE

Hong Kong profits tax and PRC Corporate Income Tax ("CIT") has been provided at the rate of 16.5% and 25%, respectively (six months ended 30 June 2015: 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	
	2016	2015
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax on profit for the period	**–**	–
— PRC CIT on profit for the period	**340**	506
— Under-provision in prior years	**30**	–
Deferred income tax	**13**	–
Income tax expense	**383**	506

7 EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Profit attributable to owners of the Company	**1,420**	1,131
Weighted average number of ordinary shares in issue for basic earnings per share (thousands)	**655,944**	655,746
Adjustments for share options	**–**	77
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**655,944**	655,823
Earnings per share attributable to owners of the Company		
— Basic earnings per share (HK cent)	**0.22**	0.17
— Diluted earnings per share (HK cent)	**0.22**	0.17

(a) Basic

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

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2016 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

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. As at 30 June 2015, the Group had share options which might 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 annual market share price of the Company's shares) 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.

8 DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2016 (30 June 2015: Nil).

9 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

9.1 Property, plant and equipment

	(Unaudited) Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
At 1 January	**242,102**	252,057
Additions	**9,447**	16,081
Disposals	**(57)**	(730)
Depreciation *(Note 5)*	**(16,601)**	(16,736)
Impairment losses *(Note 5)*	**(171)**	(1,335)
Exchange difference	**(327)**	16
At 30 June	**234,393**	249,353

Depreciation of HK$4,349,000 (30 June 2015: HK$2,520,000) has been charged in 'cost of sales', HK$12,133,000 (30 June 2015: HK$14,065,000) in 'administrative expenses' and HK$119,000 (30 June 2015: HK$151,000) in 'selling and distribution costs' for the period ended 30 June 2016.

9.2 Investment property

	(Unaudited) Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
At 1 January	**800**	829
Depreciation *(Note 5)*	**(15)**	(15)
At 30 June	**785**	814

Investment property situated in Hong Kong is held under lease of over 50 years and rented out under operating lease.

Depreciation of HK$15,000 (30 June 2015: HK$15,000) have been charged in 'administrative expenses' for the period ended 30 June 2016 .

10 LEASEHOLD LAND

	(Unaudited) Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
At 1 January	**31,965**	32,987
Amortisation *(Note 5)*	**(511)**	(511)
At 30 June	**31,454**	32,476

Amortisation of leasehold land of HK$511,000 (30 June 2015: HK$511,000) have been charged in 'administrative expenses' for the period ended 30 June 2016.

11 TRADE RECEIVABLES

	As at 30 June 2016 *HK$'000* **(Unaudited)**	As at 31 December 2015 *HK$'000* (Audited)
Trade receivables	**62,769**	66,048
Less: Provision for impairment of trade receivables	**(708)**	(1,728)
	62,061	64,320

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 30 June 2016 and 31 December 2015, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 30 June 2016 *HK$'000* **(Unaudited)**	As at 31 December 2015 *HK$'000* (Audited)
Less than 30 days	**35,522**	28,514
31 – 90 days	**22,801**	23,561
Over 90 days	**3,738**	12,245
	62,061	64,320

12 TRADE PAYABLES

As at 30 June 2016 and 31 December 2015, the ageing analysis of the trade payables, based on invoice date is as follows:

	As at 30 June 2016 *HK$'000* **(Unaudited)**	As at 31 December 2015 *HK$'000* (Audited)
0 – 30 days	**18,023**	13,169
31 – 60 days	**12,040**	13,239
61 – 90 days	**4,287**	2,498
Over 90 days	**633**	19
	34,983	28,925

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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 2016 ("1H2016").

During 1H2016, the retail sector remained challenging in both Hong Kong and Mainland China, with the two markets experiencing continuously erratic consumption sentiment and keen competition. Nonetheless, in the 30 years that the Group has been in operation, it has experienced its fair share of ups and downs, and the management is fully qualified to steer the Group under all circumstances.

With a solid reputation and strong brand recognition among the general public, particularly in Hong Kong, the management has been able to leverage such competitive edges to mitigate the impact of the difficult business climate, with revenue for 1H2016 reaching HK$347.9 million (1H2015: HK$357.4 million), while gross profit increased to HK$216.4 million (1H2015: HK$214.8 million) and gross profit margin increased to 62.2% (1H2015: 60.1%) mainly due to the enhancement of procurement procedures and the successful implementation of cost control measures. Profit attributable to owners rose 25.6% to HK$1.4 million (1H2015: HK$1.1 million).

The Group remains in a healthy financial position, with HK$110.0 million in cash and cash equivalents as at 30 June 2016, and maintains strong cash flows with net cash generated from operating activities.

BUSINESS SEGMENT ANALYSIS

Retail

The retail segment generated revenue of HK$258.9 million (1H2015: HK$243.7 million) during 1H2016, up 6.2% year-on-year, and accounted for 74.4% of total revenue. Segment profit climbed 42.1% to HK$31.9 million (1H2015: HK$22.4 million), owing to the continuous expansion of the Hong Kong retail business.

Hong Kong

The Hong Kong retail operation contributed revenue of HK$251.9 million (1H2015: HK$235.1 million) to the Group, up 7.1% over the corresponding period of last year. The increase was mainly due to healthy same-store sales growth, driven by greater marketing efforts that leveraged online and social media platforms. Furthermore, incentives extended to the Group's loyalty programme members and the introduction of new products also contributed to the rise in revenue. Segmental profit rose as well; climbing by 22.5% to HK$34.6 million (1H2015: HK$28.2 million) owing to the increase in sales and the continuous cost control efforts.

In line with the management's commitment to prudent network expansion, four new shops were opened during 1H2016, mainly located in MTR station and shopping malls, the latter included one shop in Admiralty. Consequently, as at 30 June 2016, the retail network consists of 112 self-operated shops, hence, the Group has retained its position as the largest herbal retailer in Hong Kong in terms of retail network size.

To drive sales and build awareness, the Group placed much effort on marketing and promotions that capitalised on its 30th anniversary celebration, which was also an ideal opportunity for highlighting Hung Fook Tong's strong heritage and background as a locally established brand. By rolling out communication campaigns, including online strategies that utilise social media to promulgate the importance of family values, the Group has strengthened emotional ties with the Hong Kong people. At the same time, associated promotions that include celebratory special offers and discount lucky bags were launched to reward customers for their support.

In addition, 23 new or seasonal fresh products, including popular items like Pork Soup with Sea Coconut (海底椰合掌瓜百合雪耳豬腱湯) and Drink with Corn Stigma and Coix seed (粟米鬚薏米飲品), were launched during 1H2016 to drive sales. A product that is fast becoming a favourite among customers is pig trotters and ginger in sweet vinegar sauce, which continues to enjoy good sales momentum, and is a testament to the management's foresight in entering the wedding and newborn markets via the Joyous Series (自家喜慶系列).

Not neglecting the Group's loyal customers, in particular, JIKA CLUB members which rose in numbers by over 48,000 during 1H2016 to 587,000 members, a lucky draw was introduced as part of the 30th anniversary celebrations, resulting in a 30% increase in the top-up value of membership cards during the campaign. Furthermore, recognising the increasing demand for more tailor-made and personal service, the Group has strategically segmented the members for specific services and promotional efforts. Correspondingly, a new Platinum Membership programme was introduced to reward high-spending customers, providing unique privileges and offers that befit their top-tier status. The programme is also designed to increase the loyalty of such active members and encourage further patronage.

Besides attracting traditional customers, the management also recognises the importance of drawing their online counterparts. In response, the Group introduced an online shopping platform, i.e. "Hung Fook Tong Online" in early 2016, which enjoyed good response from the general public, although the platform is still in its infancy at this point.

Mainland China

Revenue from the Mainland China retail operation declined by 18.8% year-on-year to HK$7.0 million (1H2015: HK$8.6 million), due primarily to the Group's strategic exit from the Shanghai market since the first half of 2015. Segment loss has narrowed to HK$2.7 million (1H2015: loss of HK$5.8 million) as a one-off charge was incurred during 1H2015 in connection with the termination of its Shanghai partnership. The management will continue to focus on the Guangzhou market where brand awareness is stronger, and where the Group operates 21 retail shops — the same number as at the end of 2015.

Wholesale

The wholesale segment contributed revenue of HK$89.0 million (1H2015: HK$113.7 million), down 21.7% from the corresponding period of last year, as fierce competition and weak retail momentum continued to impact on both the Hong Kong and Mainland China markets. The Group nonetheless introduced a number of new products on both sides of the border, including Iced Milk Tea (金裝奶茶) and the Fresh Fit Drinks Series (清解飲) to address consumers' desires for continuously new products, as well as to capture greater market share. Correspondingly, associated advertising and promotions were introduced, which consequently incurred related expenses, as well as listing fee (上架費用) for third party retailers. While the Group recorded a segment loss of HK$8.0 million (1H2015: profit of HK$3.9 million), the management trusts that such product launches are essential for sustaining the long-term development of the wholesale operation.

Hong Kong

The Hong Kong wholesale business, which includes overseas market, experienced a downturn, with revenue declining by 20.9% year-on-year to HK$53.0 million (1H2015: HK$67.0 million) as the result of the unsatisfactory performance of a key distributor. On a positive note, the new Fresh Fit Drinks Series (launched in June 2016), which includes Apple & Bitter Melon (蘋果苦瓜) and Red Bean & Jobs Tears Seeds Drink (紅豆薏米), have generated encouraging sales momentum, even though related advertising and promotion expenses rose as the Group sought to establish their market presence.

Mainland China

In Mainland China, the wholesale segment generated revenue of HK$36.0 million (1H2015: HK$46.6 million), down 22.7% year-on-year. Local consumption sentiment remained weak, which has severely affected the beverage industry as a whole. Compounding matters is fierce competition resulting from a flood of new products on the market. The Group had to capitulate to demands for deep discounts by certain accounts — a common practice among the Group's rivals. Reported revenue from Mainland China was also impacted by the depreciation of the Renminbi.

Despite the difficult environment, the Group has made progress in expanding its distribution footprint, now covering 46 cities in 16 provinces across the country. The number of distributors has also increased to 78 as at 1H2016. It is worth noting that the Group secured two new key accounts in Guangzhou, a market that continues to be a major revenue contributor. Outside of Guangdong, the Shanghai market has shown signs of improvement, spurred by the introduction of new products that have been favourably received by consumers.

Production Facilities

During 1H2016, the Tai Po plant in Hong Kong obtained ISO22000 accreditation, its first milestone since commencing operation at the end of 2014. The achievement highlights the Group's efforts in food safety management and commitment to delivering products that meet high safety standards. The Group is also identifying suitable Original Equipment Manufacturer ("OEM") opportunities so as to raise the utilisation rates of both the Tai Po and Suzhou plants further.

PROSPECTS

Consumption sentiment is expected to remain weak in Hong Kong and Mainland China; hence the retail market will continue to face stiff challenges. The management will be highly cautious as it navigates the Group through the volatile conditions, particularly in Mainland China. Nonetheless, the Group is confident about its ability to maintain a lead position in the Hong Kong retail market. At the same time, it will seek to promulgate the "3H" concept of Health, Herbal and Home via the online business, which the management believes complements the retail operation since the platform offers a different and diverse portfolio of healthy products. Even though the online platform is still at an early stage of development and requires time to optimise, its growth potential is significant. The management will therefore direct greater focus on the online business, particularly in terms of enhancing the user experience, so that it develops into a new revenue stream, aside from the retail and wholesale operations.

Retail

Hong Kong

As a market leader, the Group remains optimistic about maintaining its position in Hong Kong with products that have proven fully capable of weathering the lacklustre conditions. Furthermore, the Group will continue to prudently expand its shop network, by adding at least five more shops during the second half year, having already opened two shops and secured three other locations, including MTR shops along the South Island Line, the construction work of which is nearing completion. The plan to open at least nine new shops this year aligns with the Group's target.

In terms of encouraging same-store sales and broadening the Group's customer base, greater marketing efforts will be made via the internet, including the use of social media platforms that target the youth segment. Furthermore, to cope with the latest shopping behaviour which has shifted towards online spending via portable devices, the management will introduce more online tools for the Group's loyal members, such as the introduction of a new mobile application that deliver convenient and efficient "On-The-Go" shopping experiences. In respect of the Group's loyalty program, better tiered memberships will ensure the effective execution of targeted strategies to address different consumers' needs. The Group will step up efforts at optimising the resource planning and payment systems as well, so that traditional customers can also enjoy added shopping convenience while the Group can concurrently reduce costs.

Mainland China

With reference to the Mainland China retail operation, the management will primarily focus on Guangdong province, and identify suitable locations for possible new shops.

Wholesale

Hong Kong

In Hong Kong, where the Group is a market leader of wellness drinks, Hung Fook Tong will seek to sustain its market presence with an ever-expanding portfolio of products. The management will be highlighting the Fresh Fit Drinks as a healthy alternative to traditional beverages. In particular, the Red Bean & Jobs Tears Seeds Drink with low-sugar content will be targeted towards the health-conscious female segment. Realising the potential of its Iced Milk Tea, a new "less sugar" (少甜) formula with an attractive new packaging has been introduced in August this year to further raise interest, while a new Yuan Yang (鴛鴦) flavour will be released that will build on the series.

For the overseas business, the management plans to introduce a select line-up of drinks to the Thailand market in the remaining half year.

Mainland China

The Group will continue to take a highly cautious approach towards managing the Mainland China wholesale business, given the lacklustre economy and consumers' penchant for new drink experiences, as well as price sensitivity. In tackling this challenging market, the management will seek to drive sales and increase awareness by further promoting its new products, including the Fresh Fit Drinks and Nourishing Deluxe (甘露系列) series, which have already seen rising sales since the second quarter of 2016. The management believes that they will generate still greater sales in the summer months, which is the traditional peak season for such drinks.

Geographically, the management will tap a variety of sales channels to reach local consumers. This will be complemented by product mixes that are tailored for the varied tastes of customers from different regions. The Group will also continue to partner with popular e-retailers such as Yihaodian (1號店), Jingdong (JD.com) (京東) and sfbest.com (順豐優選) to tap the vast online shopping demand.

CONCLUSION

With a solid foundation, strong brand value and effective business segmentation — the product of 30 years of business operation — the Group is fully capable of weathering volatile conditions. At the same time, the Group will take the necessary measures to maintain its leadership in the Hong Kong market and achieve a turnaround in Mainland China, and will look to reap the benefit in the near future.

FINANCIAL REVIEW

Revenue

In 1H2016, the Group's revenue amounted to HK$347.9 million, representing a decrease of 2.6% from HK$357.4 million in 1H2015. The decrease was attributed to the net effect of an increase of 7.1% in Hong Kong retail sales and a decrease of 21.7% in wholesales, as a result of the general economic slowdown and keen competition in the beverage market in both Hong Kong and Mainland China.

Cost of Sales

In 1H2016, the Group's cost of sales amounted to HK$131.5 million, representing a decrease of 7.8% from HK$142.6 million in 1H2015. As a percentage of revenue, cost of sales represented 37.8% and 39.9% in 1H2016 and 1H2015 respectively.

Gross Profit and Gross Profit Margin

In 1H2016, the Group's gross profit amounted to HK$216.4 million, representing an increase of 0.8% from HK$214.8 million in 1H2015. The Group's gross profit margin increased by 2.1% to 62.2% as compared to 60.1% in 1H2015. The increase was mainly due to the decrease in the costs of raw materials, arising from the enhancement of procurement procedures and the successful implementation of cost control measures.

Staff Costs

In 1H2016 the Group's staff costs amounted to HK$109.7 million, similar to the staff costs of HK$109.0 million in 1H2015. The staff costs-to-revenue ratio remained stable, at 31.5% as compared to 30.5% in 1H2015.

Rental Expenses

In 1H2016, the Group's rental expenses in relation to its retail shops amounted to HK$47.9 million, representing an increase of 4.1% from HK$46.0 million in 1H2015. The increase was primarily due to new shops leased during the period and the increase in rent upon renewal of leases. Rental expenses-to-retail-revenue ratio (Hong Kong and Mainland China) dropped slightly to 18.5%, as compared to 18.9% in 1H2015.

Advertising and Promotion Expenses

In 1H2016, the Group's advertising and promotion expenses amounted to HK$13.9 million, representing an increase of 11.0% from HK$12.5 million in 1H2015. This accounted for 4.0% and 3.5% respectively in percentage to revenue in 1H2016 and 1H2015. More marketing expenses had been incurred for the Group's 30th anniversary celebration during the period.

Depreciation and Amortisation

In 1H2016, the depreciation and amortisation of the Group amounted to HK$17.1 million, which is comparable to HK$17.3 million in 1H2015. This accounted for 4.9% and 4.8% respectively in percentage to revenue in 1H2016 and 1H2015.

Net Profit

Profit attributable to owners of the Company for 1H2016 was HK$1.4 million, representing an increase of 25.6% from HK$1.1 million in 1H2015. The net profit margin (calculated as profit for the period as a ratio of revenue) for six months ended 30 June 2016 was 0.4%, as compared to 0.3% for the same period last year.

Basic earnings per share for the period amounted to HK0.22 cent, as compared to the corresponding period's figure of HK0.17 cent in 2015.

Capital Expenditure

During 1H2016, capital expenditure amounted to HK$9.4 million (1H2015: HK$16.1 million). This amount was used mainly for the opening of new shops, the revamping of existing retail shops and the production facilities in Shenzhen, Suzhou and Tai Po plant.

Liquidity and Financial Resources Review

Our Group is financially sound with bank deposits and cash amounting to HK$113.9 million as at 30 June 2016 (31 December 2015: HK$146.5 million).

As at 30 June 2016, the gearing ratio of the Group was 0.19 (31 December 2015: 0.34), which was calculated based on total debt divided by total equity attributable to owners.

As at 30 June 2016, the Group has total banking facilities of HK$188.2 million (31 December 2015: HK$208.7 million) of which HK$50.9 million (31 December 2015: HK$88.0 million) has been utilised.

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

Foreign Currency Risk

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

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals or significant investments during the six months ended 30 June 2016.

Contingent Liabilities

(i) Taclon Industries Limited ("Taclon"), a subsidiary of the Company, is involved in a potential litigation with a claim amounting to approximately HK$10.3 million (the "Alleged Debt"). It is the understanding of the directors of the Company that the Alleged Debt is a personal debt belongs to a Taclon's former director. The directors of the Company 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 2016.

OTHER INFORMATION

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: nil).

Corporate Governance Code

The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the six months ended 30 June 2016.

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 2016, 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, 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 2016.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the interim financial information for the six months ended 30 June 2016 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 2016, 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 2016 interim report of the Company containing all the information required by the Listing Rules will be dispatched to its shareholders and published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.hungfooktong.com) in due course.

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

Hong Kong, 29 August 2016

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.