HUNG FOOK TONG

Hung Fook Tong Group Holdings Limited

鴻福堂集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1446)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- Revenue for the year ended 31 December 2016 ("2016") decreased by 1.2% to HK$715.2 million from HK$723.6 million for the year ended 31 December 2015 ("2015").
  - Revenue from retail business increased by 5.4%, to HK$518.4 million, with retail network comprising 135 retail shops as at 31 December 2016.
  - Revenue from wholesale business decreased by 15.1%, to HK$196.8 million, with distribution network now covering 50 cities in 17 provinces, and number of distributors in Mainland China increased to 79.
- Gross profit for 2016 increased by 0.5% to HK$440.9 million from HK$438.9 million in 2015, and gross profit margin for 2016 increased by 1.0 percentage point to 61.7% as compared to 60.7% in 2015.
- Profit attributable to owners of the Company for 2016 was HK$9.0 million (2015: HK$8.7 million).
- Earnings per share for 2016 was HK1.37 cents (2015: HK1.33 cents).
- Proposed final dividend and special dividend of HK0.41 cent and HK0.35 cent per ordinary share, respectively (totalling HK0.76 cent per ordinary share).

RESULTS

The board of directors (the "Board") of Hung Fook Tong Group Holdings Limited (the "Company") hereby announces the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 together with comparative figures for the previous financial year 2015, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

		Year ended 31 December	
		2016	2015
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**715,207**	723,578
Cost of sales	*6*	**(274,276)**	(284,651)
Gross profit		**440,931**	438,927
Other income	*5*	**1,245**	1,566
Other gains/(losses), net	*5*	**7,945**	(2,359)
Selling and distribution costs	*6*	**(76,506)**	(70,670)
Administrative and operating expenses	*6*	**(367,422)**	(354,755)
Operating profit		**6,193**	12,709
Finance income	*7*	**202**	342
Finance costs	*7*	**(2,027)**	(2,416)
Finance costs, net	*7*	**(1,825)**	(2,074)
Profit before income tax		**4,368**	10,635
Income tax credit/(expense)	*8*	**4,275**	(1,304)
Profit for the year		**8,643**	9,331
Profit/(loss) attributable to:			
Owners of the Company		**8,961**	8,707
Non-controlling interests		**(318)**	624
		8,643	9,331

	Note	2016 HK$'000	2015 HK$'000
		Year ended 31 December	
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
– Currency translation differences		**(4,110)**	(2,402)
Other comprehensive loss, net of tax		**(4,110)**	(2,402)
Total comprehensive income for the year		**4,533**	6,929
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**5,177**	6,899
Non-controlling interests		**(644)**	30
		4,533	6,929
Earnings per share attributable to owners of the Company			
– Basic and diluted (HK cents per share)	*9*	**1.37**	1.33

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		As at 31 December	
		2016	2015
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Leasehold land		**48,387**	31,965
Property, plant and equipment		**226,990**	242,102
Investment property		**–**	800
Prepayments and deposits		**17,507**	19,764
Deferred income tax assets		**9,016**	4,290
		301,900	298,921
Current assets			
Inventories		**27,921**	30,102
Trade receivables	*11*	**53,659**	64,320
Prepayments, deposits and other receivables		**32,942**	29,458
Amount due from a related company		**690**	822
Tax recoverable		**4,400**	4,084
Pledged bank deposits		**1,066**	15,007
Bank deposits with original maturity over 3 months		**–**	4,097
Cash and cash equivalents		**131,160**	127,410
		251,838	275,300
Total assets		**553,738**	574,221
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**6,559**	6,559
Share premium	*12*	**214,999**	214,999
Reserves		**34,619**	34,427
		256,177	255,985
Non-controlling interests		**805**	2,821
Total equity		**256,982**	258,806

	Note	As at 31 December 2016 HK$'000	2015 HK$'000
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		**3,521**	4,027
Deferred income tax liabilities		**378**	326
Bank borrowings		**44,942**	37,722
Obligation under finance leases		**–**	797
		48,841	42,872
Current liabilities			
Trade payables	*13*	**23,558**	28,925
Accruals and other payables	*14*	**62,416**	65,776
Provision for reinstatement costs		**2,877**	2,233
Receipts in advance		**133,329**	122,743
Bank borrowings		**22,813**	47,861
Obligation under finance leases		**–**	1,093
Taxation payable		**2,922**	3,912
		247,915	272,543
Total liabilities		**296,756**	315,415
Total equity and liabilities		**553,738**	574,221
Net current assets		**3,923**	2,757
Total assets less current liabilities		**305,823**	301,678

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 10 January 2014 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together the "Group") are principally engaged in the retail, wholesale and distribution of bottled drinks, other herbal products, soups and snacks in Hong Kong and other parts of the People's Republic of China ("PRC" for the purpose of this set of financial statements) (the "Business").

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

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated and have been approved for issue by the Board of Directors on 28 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

Amendment to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendment to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
HKFRS 14	Regulatory Deferral Accounts
Amendment to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRSs	Annual Improvements 2012-2014 cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

The following are new standards, amendments and interpretations that have been issued but not yet effective for the annual accounting period beginning 1 January 2016 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendment to HKAS 7	Disclosure Initiative	1 January 2017
Amendment to HKAS 12	Recognition of Deferred Tax Assets For Unrealised Losses	1 January 2017
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA
Amendment to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendment to HKFRS 15	Clarifications to HKFRS 15	1 January 2018
HKFRS 16	Leases	1 January 2019

The Group will adopt the above new standards and amendments to existing standards when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

3 SEGMENT INFORMATION

The segment information provided to the executive directors for the years ended 31 December 2016 and 2015 is as follows:

	Year ended 31 December 2016			
	Hong Kong Retail *HK$'000*	**PRC Retail** *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**519,286**	**14,463**	**201,379**	**735,128**
Less: Inter-segment revenue	**(15,321)**	**–**	**(4,600)**	**(19,921)**
Revenue from external customers	**503,965**	**14,463**	**196,779**	**715,207**
Segment results	**63,356**	**(3,808)**	**(19,852)**	**39,696**
Corporate expenses				**(41,730)**
Gain on disposal of an investment property				**8,227**
Finance costs, net				**(1,825)**
Profit before income tax				**4,368**
Income tax credit				**4,275**
Profit for the year				**8,643**
Other segment items:				
Capital expenditure	**12,377**	**567**	**24,219**	**37,163**
Depreciation and amortisation	**25,337**	**1,403**	**7,066**	**33,806**
Impairment losses on property, plant and equipment	**–**	**169**	**–**	**169**
Provision for impairment on trade receivables	**480**	**–**	**5,062**	**5,542**
Interest income	**124**	**1**	**77**	**202**

	Year ended 31 December 2015			
	Hong Kong Retail	PRC Retail	Wholesale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	483,175	16,161	237,682	737,018
Less: Inter-segment revenue	(7,521)	–	(5,919)	(13,440)
Revenue from external customers	475,654	16,161	231,763	723,578
Segment results	60,057	(9,594)	6,042	56,505
Corporate expenses				(43,796)
Finance costs, net				(2,074)
Profit before income tax				10,635
Income tax expense				(1,304)
Profit for the year				9,331
Other segment items:				
Capital expenditure	17,297	1,398	7,819	26,514
Depreciation and amortisation	25,054	2,266	6,926	34,246
Reversal of provision for impairment on trade receivables	–	–	(4)	(4)
Interest income	182	5	155	342

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

	Hong Kong Retail	**PRC Retail**	**Wholesale**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2016					
Segment assets	**354,509**	**8,699**	**174,230**	**(3,723)**	**533,715**
Amount due from a related company					**690**
Tax recoverable					**4,400**
Deferred income tax assets					**9,016**
Corporate assets					**5,917**
Total assets					**553,738**
As at 31 December 2015					
Segment assets	370,621	10,475	174,580	(3,453)	552,223
Amount due from a related company					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.

The Company is domiciled in the Cayman Islands while the Group operates its business primarily in Hong Kong and in the PRC. For the year ended 31 December 2016, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2015: Nil).

The Group's revenue by geographical locations (as determined by the area or country in which the customer is operated) is analysed as follows:

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Hong Kong	**612,290**	602,865
The PRC	**85,809**	103,641
Overseas countries	**17,108**	17,072
	715,207	723,578

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2015 and 2016.

The following is an analysis of the carrying amounts of the Group's segment assets analysed by geographical area in which the assets are located:

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Hong Kong	**421,660**	439,346
The PRC	**112,055**	112,877
	533,715	552,223

Non-current assets, other than deferred income tax assets, by geographical areas are as follows:

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Hong Kong	**245,585**	262,545
The PRC	**47,299**	32,086
	292,884	294,631

4 REVENUE

The Group's revenue recognised during the year is as follows:

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Sale of goods	**696,592**	706,872
Revenue recognised upon expiry of pre-paid coupons and cards	**18,615**	16,706
	715,207	723,578

5 OTHER INCOME AND OTHER GAINS/(LOSSES), NET

Other income

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Rental income	**312**	292
Franchise income	**55**	62
Rebate from utility company	**460**	560
Others	**418**	652
	1,245	1,566

Other gains/(losses), net

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Exchange difference	**(102)**	(1,065)
Losses on disposal of property, plant and equipment	**(142)**	(1,448)
Gain on disposal of an investment property	**8,227**	–
Others	**(38)**	154
	7,945	(2,359)

6 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Cost of inventories sold	**203,365**	212,123
Operating lease rental in respect of retail outlets		
– Minimum rental	**98,722**	93,704
– Contingent rental	**338**	386
Operating lease rental in respect of storage spaces and office premises	**20,325**	19,917
Advertising and promotional expenditure	**33,458**	26,825
Amortisation of leasehold land	**1,023**	1,022
Depreciation of property, plant and equipment	**32,756**	33,195
Depreciation of investment property	**27**	29
Communication and utilities	**33,704**	35,721
Employee benefit expenses (including directors' emoluments)	**221,751**	215,459
(Reversal of provision)/provision for obsolete inventories	**(50)**	47
Provision/(reversal of provision) for impairment on trade receivables	**5,542**	(4)
Impairment losses on property, plant and equipment	**169**	–
Legal and professional fees	**4,003**	5,800
Auditors' remuneration		
– Audit services	**2,848**	2,600
– Non-audit services	**273**	178
Tools, repair and maintenance expenses	**10,952**	10,338
Transportation and distribution expenses	**30,589**	28,620
Reversal of provision for litigation related expenses	**(1,000)**	–
Others	**19,409**	24,116
Total cost of sales, selling and distribution costs and administrative and operating expenses	**718,204**	710,076

7 FINANCE COSTS, NET

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Finance income:		
– Interest income	**202**	342
Finance costs:		
– Interest expenses on borrowings	**(1,957)**	(2,313)
– Interest expenses on finance leases	**(70)**	(103)
	(2,027)	(2,416)
Finance costs, net	**(1,825)**	(2,074)

8 INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2016 (2015: 16.5%) on the estimated assessable profit for the year.

PRC Corporate income tax

The companies now comprising the Group incorporated in the PRC are subject to Corporate Income Tax ("CIT") in accordance with the Law of the PRC on Corporate Income Tax (the "CIT Law"). Under the CIT Law, the income tax rate applicable to the subsidiaries now comprising the Group is 25% (2015: 25%).

The amount of income tax (credit)/expense represents:

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Current tax:		
Hong Kong profits tax on profits for the year	**–**	126
PRC CIT on profits for the year	**929**	1,479
(Over)/under-provision in prior years	**(530)**	100
Deferred income tax	**(4,674)**	(401)
Income tax (credit)/expense	**(4,275)**	1,304

9 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Profit attributable to owners of the Company	**8,961**	8,707
Weighted average number of ordinary shares for the calculation of basic earnings per share (thousands)	**655,944**	655,858
Earnings per share attributable to owners of the Company – Basic earnings per share (HK cents)	**1.37**	1.33
– Diluted earnings per share (HK cents)	**1.37**	1.33

(b) **Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. 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 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.

Diluted earnings per share for the year ended 31 December 2016 and 2015 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

10 DIVIDENDS

	2016	2015
	HK$'000	*HK$'000*
Dividends attributable to the year		
Proposed final dividend of HK0.41 cent (2015: HK0.40 cent) per ordinary share	**2,689**	2,624
Proposed special dividend of HK0.35 cent (2015: HK0.36 cent per ordinary share)	**2,296**	2,361
	4,985	4,985
Dividends paid during the year	**4,985**	–

A final dividend and special dividend in respect of the year ended 31 December 2016 of HK0.41 cent and HK0.35 cent per ordinary share respectively, amounting to a total dividend of HK$4,985,000 with dividend payout ratio of 0.55 was proposed by the Board of Directors which have to be approved by shareholders in the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the consolidated statement of financial position, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

11 TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**59,199**	64,548
Less: Provision for impairment of trade receivables	**(5,540)**	(228)
Trade receivables, net	**53,659**	64,320

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

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Less than 30 days	**23,665**	28,514
31-90 days	**26,520**	23,561
Over 90 days	**3,474**	12,245
	53,659	64,320

As at 31 December 2016, trade receivables of HK$17,220,000 (2015: HK$28,096,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables, based on due date, is as follows:

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Overdue		
Less than 30 days	**9,151**	12,970
31-90 days	**4,975**	10,681
Over 90 days	**3,094**	4,445
	17,220	28,096

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

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
HK$	**42,989**	49,609
RMB	**10,670**	14,711
	53,659	64,320

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**228**	1,732
Provision/(reversal of provision) for impairment of trade receivables *(Note 6)*	**5,542**	(4)
Receivables written off during the year as uncollectible	**–**	(1,500)
Exchange difference	**(230)**	–
At 31 December	**5,540**	228

The creation and release of provision for impaired receivables have been included in 'administrative and operating expenses' in the consolidated statement of profit or loss.

The Group does not hold any collateral as security.

12 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Nominal value of Ordinary shares
		HK$
Authorised:		
At 31 December 2015 and 31 December 2016	1,000,000,000	10,000,000

	Number of shares	Nominal value of Ordinary shares	Share premium
		HK$	*HK$*
Issued and fully paid:			
At 1 January 2015	655,700,000	6,557,000	214,649,821
During the year 2015:			
Pre-IPO Share Option Scheme			
– Exercise of share option	244,000	2,440	348,314
At 31 December 2015 and 31 December 2016	655,944,000	6,559,440	214,998,135

13 TRADE PAYABLES

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Trade payables	**23,558**	28,925

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

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
0 to 30 days	**11,898**	13,169
31 to 60 days	**10,298**	13,239
61 to 90 days	**1,193**	2,498
Over 90 days	**169**	19
	23,558	28,925

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

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
HK$	**13,363**	15,642
RMB	**10,195**	13,283
	23,558	28,925

14 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Accruals for employee benefit expenses	**22,698**	23,920
Accruals for marketing and promotional expenses	**2,564**	1,697
Accruals for sales rebate	**2,397**	1,100
Rental and related expenses payable	**5,136**	6,524
Office and utilities expenses payable	**2,786**	2,774
Deferred revenue	**1,760**	717
Consideration payable for property, plant and equipment acquired	**3,468**	5,041
Accruals for transportation and delivery charges	**8,116**	6,974
Accruals for audit fee	**2,719**	2,496
Other accruals and other payables	**10,772**	14,533
	62,416	65,776

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

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
HK$	**51,441**	53,489
RMB	**10,975**	12,287
	62,416	65,776

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the financial year ended 31 December 2016, the retail sector remained challenging in both Hong Kong and Mainland China owing to a combination of weak consumption sentiment and fierce industry competition. The Group nonetheless performed stably and achieved continuous retail business expansion due to strong brand recognition, especially in Hong Kong, resulting in Group revenue of HK$715.2 million (2015: HK$723.6 million). Gross profit rose modestly to HK$440.9 million (2015: HK$438.9 million), while gross profit margin increased to 61.7% (2015: 60.7%) despite the tough operating environment – the result of enhancements made in procurement procedures as well as the successful implementation of cost control measures. The Group's net profit was HK$9.0 million (2015: HK$8.7 million) including a one-off gain of HK$8.2 million from the disposal of an investment property. Excluding the one-off gain, the recurring profit of the Group for the financial year amounted to HK$0.8 million. The decline in recurring profit was mainly due to a decrease in revenue from the wholesale operation.

BUSINESS SEGMENT ANALYSIS

Retail

The retail segment generated revenue of HK$518.4 million (2015: HK$491.8 million), which is up 5.4% over the previous financial year. Profit increased appreciably by 18.0% to HK$59.5 million (2015: HK$50.5 million), owing to further expansion and improvements made in the Hong Kong retail business.

Hong Kong

The Hong Kong retail business recorded revenue of HK$504.0 million for the year ended 31 December 2016 (2015: HK$475.7 million), up 6.0%, and thereby remaining the largest revenue contributor of the Group – accounting for 70.5% of total revenue. The rise in revenue was due largely to favourable same-store sales growth resulting from the Group's stronger online marketing efforts which converted online attention to sales and were supported by the introduction of new loyalty programme incentives as well as the launch of new products. Segment profit from the Hong Kong retail business amounted to HK$63.4 million (2015: HK$60.1 million), which is up 5.5%. The profit rise can be attributed to increased sales coupled with cost control efforts that have led to an improved margin.

During the financial year ended 31 December 2016, the management has continued to expand the Hong Kong retail network in a prudent manner. Nine new shops were opened in strategic points of the city, raising the total number of self-operated shops to 116 as at 31 December 2016. In so doing, the Group has remained the largest herbal retailer in Hong Kong based on retail network size. The new shops were largely located in shopping malls and MTR stations, the latter included openings in the new South Island Line, specifically at the Wong Chuk Hang Station and Ocean Park Station.

Besides new sales points, more than 60 new or seasonal fresh products were also introduced, including Healthy Handmade Ice Cream (「糖水系列」手工雪糕) and natural herbal Energy Drink with Acanthopanacis Senticosi (刺五加能量飲), in addition to many seasonal soups and drinks. In line with the Group's commitment to promoting health and wellness among city dwellers, it has kicked off a project for introducing a new type of functional specialty tea in the form of packaged Tea Leaves for Regulating Intestinal Movements (通茶). These tea leaves are highly rich in natural probiotics, hence are ideal for relaxing the bowels of urbanites.

Well aware of the growing importance of online platforms, the management has continued to place heavier emphasis on employing social media platforms and engaging influential public figures online to tap the youth market. Moreover, the Group has attracted about 97,000 new members to JIKA CLUB in the latest financial year, thus raising total memberships to 637,000 as at 31 December 2016. New features of JIKA CLUB include a new mobile application launched during the third quarter of 2016 that allows its members to enjoy personalised services and enhanced shopping experiences. What is more, a platinum membership programme (白金卡) was introduced to engage high-spending members, offering exclusive offers and services, with the aim of strengthening loyalty and increasing visits.

As at the end of 2016, the Group has partnerships with some 1,200 corporate clients including banks and associations.

Mainland China

The Mainland China retail business experienced a decline in revenue of 10.5% year-on-year to HK$14.5 million (2015: HK$16.2 million), as the Group exited from the Shanghai market as well as closed underperforming shops during the first six months of 2015. As at 31 December 2016, the Group operated a total of 19 retail shops in Guangzhou. The management remains convinced that focusing on Guangdong Province, where the Hung Fook Tong brand is well recognised, will expedite the Group's development in the country. Segment loss has been significantly reduced from HK$9.6 million in 2015 to HK$3.8 million during the financial year, the former amount reflecting one-off expenses incurred in 2015 resulting from the termination of its Shanghai partnership.

Wholesale

Concerning the wholesale operation, revenue of HK$196.8 million (2015: HK$231.8 million) was recorded for the financial year, down 15.1% year-on-year as fierce competition and weak retail momentum impacted on both the Hong Kong and Mainland China markets. Nonetheless, revenue in the second half year picked up as summer is the traditional peak season for drinks.

To address fast changing market trends and capture a greater share of the two markets, the Group launched more products including Golden Milk Tea (金裝奶茶), Golden Yuan Yang (金裝鴛鴦) and the Fresh Fit Drinks Series (清解飲). However, due to an increase in associated advertising and promotion expenses, as well as listing fees (上架費用) to third-party retailers, a segment loss of HK$19.9 million (2015: profit of HK$6.0 million) was recorded.

Hong Kong

In Hong Kong, the wholesale business generated revenue of HK$125.4 million, down 13.1% year-on-year from HK$144.3 million in 2015. The decline was mainly the result of the unsatisfactory performance of a key distributor. There was nevertheless a moderate increase in the average selling price of products. It is also worth noting that the Group has maintained its No. 1 position in sales value and sales volume in the Wellness Drink Category in Hong Kong for the 14th consecutive year, according to Nielsen – capturing 40.6% of the market based on sales value.

Among the highlights of the past year include the introduction of the aforementioned Fresh Fit Drinks Series in June 2016, and in particular, the promising performance of the low-sugar Red Bean & Jobs Tears Seeds Drink (紅豆薏米) driven by demand from health conscious young consumers.

Mainland China

Revenue from the Mainland China wholesale business amounted to HK$71.4 million (2015: HK$87.5 million), down 18.4% year-on-year, due to continuingly weak consumption sentiment that has been detrimental to the beverage industry as a whole. Compounding matter is fierce competition in the form of numerous product launches. To stand out from the numerous competitors, the Group had to offer deep discounts to certain accounts – a practice that is permeating the industry. Furthermore, depreciation of the Renminbi has also led to the revenue decrease.

As at 31 December 2016, the Group has an extensive distribution network covering 17 provinces and 50 cities, the former including Jiangxi and the latter including Suzhou and Shantou which were new points established during the year. In total, the Group has 79 distributors as at the close of the financial year. Guangzhou remains the biggest revenue contributor, a city where the Group has secured a number of large-scale supermarkets and convenience stores as key accounts. Outside of Southern China, Beijing has shown signs of improvement, spurred by greater cooperation between the Group and key accounts that extend to chilled drink products.

Production Facilities

The Group has continued efforts to advance food safety management and is committed to delivering products that meet high safety standards. Indicative of the success of such efforts, its Tai Po plant has obtained ISO22000 and HACCP accreditation, and subsequent to the financial year ended 31 December 2016, has been recognised for good manufacturing practices ("GMP") by Accredited Certification International Limited ("ACI").

Besides addressing safety and hygiene concerns, the management has also sought to streamline production processes to enhance efficiency and save costs. Furthermore, by conducting OEM operations at the Tai Po plant, the management aims to raise the utilisation rate of the facility.

PROSPECTS

Consumption sentiment in Hong Kong and Mainland China is expected to remain lacklustre in the coming year. According to industry forecasts, the Hong Kong retail market will experience further decline in 2017, while the situation in Mainland China is unlikely to see any major improvement. The management will therefore adopt a cautious approach towards navigating through both markets, including protecting the Group's leadership in Hong Kong. In ensuring the wellbeing of the Group, the management will focus on controlling costs while at the same time introducing new initiatives, among which will include promoting and extending the product line of Tea Leaves for Regulating Intestinal Movements (通茶), rolling out the Hung Fook Tong food truck (鴻福堂美食車) and developing the brand's online presence, all of which will go towards raising the Group's brand value and its association with good health, innovation and peace of mind.

Though the Group's online shopping platform "Hung Fook Tong Online" is still in its infancy and requires time to optimise, it nevertheless possesses clear potential which the Group will tap. Towards this objective, the management will be working on offering wider product choices and building a larger user base for the online business.

To cater for the future expansion of the Group's business, it is planning to construct a new production plant in Kaiping (開平), Guangdong Province, and the relevant construction contract is expected to be entered in the near future. Construction will be financed mainly by internal resources of the Group and possibly, in part, through bank borrowings.

Retail

Hong Kong

The management remains committed to maintaining the Group's leadership in the Hong Kong market. To protect this position, the management will observe a prudent expansion strategy, which, in the coming year will involve opening six to eight shops in the city. Already, the Group has opened two shops in March 2017, specifically at Central Station and Lam Tin Station, as well as secured another location in Tuen Mun.

Besides geographical expansion, the Group is equally dedicated to expanding its products and enhancing its brand image. Towards the former, it will be building on the success of the Joyous Series (自家喜慶系列) by introducing more products for new mothers, as well as the rollout of larger size containers of pig trotter and ginger in sweet vinegar sauce (自家豬腳薑醋) during the first half of 2017. Furthermore, the Group will promote Tea Leaves for Regulating Intestinal Movements more aggressively in view of the favourable response received following its launch in early 2017, which also paves the way for future launches of associated products such as tea bags that leverage the unique health benefits of the tea leaves.

Another exciting project that has come to fruition is the Hung Fook Tong food truck. Being one of the selected operators under the Food Truck Pilot Scheme (美食車先導計劃) hosted by the Tourism Commission, the Group's food truck took to the road in February 2017. It will be operating in eight designated tourist attractions across Hong Kong during the two-year pilot period, allowing the Group to effectively reach and promote its healthy products to travellers worldwide as well as to locals. The food truck is poised to reinforce Hung Fook Tong's reputation as a local brand while at the same time widen its reach.

One key focus of the management is to pursue growth in same-store sales in the coming year. This will call for greater marketing efforts that employ new media. In addition, more incentives will be offered to entice inactive JIKA CLUB members to resume consumption while also help build loyalty among all members.

Mainland China

In line with the management's focus on tapping the Guangdong market to drive retail sales in Mainland China, the Group plans to open two new shops in 2017. Already, one shop has been opened in Guangzhou in January 2017, located in Guangzhou IFC shopping centre.

Wholesale

Hong Kong

With regard to the Hong Kong wholesale market, the Group will aim to secure new distributors and increase distribution to food and beverage outlets such as restaurants. Moreover, it plans to revamp the packaging of selected items and launch special edition products to stimulate sales. Efforts will also be made to boost higher-margin chilled drink products.

Leveraging its already extensive overseas distribution network, the Group will continue to examine opportunities to tap more regional markets, including Thailand in 2017.

Mainland China

The management remains cautious about the Mainland China beverage market in view of fierce competition, and the fast changing preferences of consumers, though they are actually becoming less price sensitive to beverage products, which is a positive sign for the healthy growth of the beverage market in the long run.

To drive sales amid the aforementioned conditions, the Group will seek to further penetrate existing markets; strengthen cooperation with key accounts in such areas as developing exclusive products – to address the needs of different channels – and price strategies to boost sales; and expand sales channels to venues such as cinemas, tourist spots and schools. It will also introduce higher-margin products including the Deluxe Series (甘露系列) or products featuring new packaging for entering Northern and Western markets. Furthermore, the Group will 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), thus seize both conventional and e-commerce opportunities.

CONCLUSION

As the market leader with a solid foundation built from 30 years in the industry, the Group has the experience to weather the difficult environment that is presently affecting the entire industry, both in Hong Kong and Mainland China. The management will therefore remain vigilant to market developments while at the same time encourage greater innovations that have been the hallmark of the Group's success.

FINANCIAL OVERVIEW

Revenue

For the year ended 31 December 2016, the Group's revenue amounted to HK$715.2 million, representing a decrease of 1.2% from HK$723.6 million in 2015. The decrease was attributed to the net effect of an increase of 5.4% in Hong Kong retail sales and a decrease of 15.1% 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

For the year ended 31 December 2016, the Group's cost of sales amounted to HK$274.3 million, representing a decrease of 3.6% from HK$284.7 million in 2015. As a percentage of revenue, cost of sales represented 38.3% and 39.3% in 2016 and 2015 respectively.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2016, the Group's gross profit increased by 0.5% to HK$440.9 million from HK$438.9 million in 2015. The Group's gross profit margin increased by 1.0 percentage point to 61.7% as compared to 60.7% in 2015. The increase was mainly due to the decrease in the raw materials costs, arising from the enhancement of procurement procedures and the successful implementation of cost control measures.

Staff Costs

For the year ended 31 December 2016, the Group's staff costs amounted to HK$221.8 million, representing an increase of 2.9% from HK$215.5 million in 2015. The staff costs-to-revenue ratio is 31.0% as compared to 29.8% in 2015.

Rental Expenses

For the year ended 31 December 2016, the Group's rental expenses in relation to its retail shops amounted to HK$99.1 million, representing an increase of 5.3% from HK$94.1 million in 2015. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-revenue ratio (Hong Kong and Mainland China) is 19.1% in 2016 and 2015.

Advertising and Promotion Expenses

For the year ended 31 December 2016, the Group's advertising and promotion expenses amounted to HK$33.5 million, representing an increase of 24.7% from HK$26.8 million in 2015. This accounted for 4.7% and 3.7% respectively in percentage to revenue in 2016 and 2015. More marketing expenses are spent for the 30th anniversary celebration during the year.

Depreciation and Amortisation

For the year ended 31 December 2016, the depreciation and amortisation of the Group amounted to HK$33.8 million, representing a decrease of 1.3% from HK$34.2 million in 2015. This accounted for 4.7% in percentage to revenue in 2016 and 2015.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2016 was HK$9.0 million, representing an increase of 2.9% from HK$8.7 million in 2015. The net profit margin (calculated as profit attributable to owners of the Company as a ratio of revenue) for year ended 31 December 2016 was 1.3%, as compared to 1.2% in 2015.

Basic earnings per share for the year amounted to HK1.37 cents, as compared to HK1.33 cents in 2015.

Capital Expenditure

During the year ended 31 December 2016, capital expenditure amounted to HK$37.2 million. This amount was used mainly for the opening of new shops, the revamping of existing retail shops, the production facilities in Mainland China and Tai Po plants, and the land for new production plant in Kaiping, Mainland China.

Liquidity and Financial Resources Review

Our Group is financially sound with bank deposits and cash amounting to HK$132.2 million as at 31 December 2016 (31 December 2015: HK$146.5 million).

As at 31 December 2016, the gearing ratio of the Group was 0.26 (31 December 2015: 0.34), which was calculated based on total debt divided by total equity attributable to owners of the Company.

As at 31 December 2016, the Group has total banking facilities of HK$172.4 million (31 December 2015: HK$208.7 million) of which HK$69.2 million (31 December 2015: HK$87.5 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 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 and significant investments as at year ended 31 December 2016.

Contingent Liabilities

(i) 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 that the Alleged Debt is a personal debt belongs to a Taclon's ex-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, a related company outside the Group, had confirmed, convenant 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 which the Directors consider an outflow of resources is not probable.

Human Resources

As at 31 December 2016, the Group employed approximately 1,438 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on years of service and performance appraisal. In addition, the Group has also implemented share option schemes.

During the year ended 31 December 2016, various training activities, such as orientation on both frontline and back office operations, customer services & sales skills, product knowledge (Herbal Ambassador Program) and retail operations, have been conducted to improve the quality of frontline services, as well as enhance customer experience and to ensure the smooth and effective operation of the Point-of-Sales ("POS") system. A supervisor trainee program was also implemented to attract talents, enhancing the leadership skills of the participants including their professional and managerial techniques as well as their knowledge in machinery monitoring and production processing.

OTHER INFORMATION

Dividends

A final dividend in respect of the year ended 31 December 2016 of HK0.41 cent per ordinary share, was proposed by the Board. In addition, to reward the continuous support of our shareholders, the Board also proposed a special dividend of HK0.35 cent per ordinary share. The proposed final and special dividends amounted to a total of HK$4,985,000 with dividend payout ratio of 0.55 which have to be approved by shareholders in the forthcoming annual general meeting ("AGM"). These proposed dividends are not reflected as dividend payable in the consolidated statement of financial position, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

Subject to the approval of the shareholders at the forthcoming AGM the final dividend will be payable on or about Friday, 14 July 2017 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Tuesday, 13 June 2017.

Closure of Register of Members

For determining the entitlement to attend and vote at the annual general meeting ("AGM") of the Company to be held on Friday, 2 June 2017, the register of members of the Company will be closed from Friday, 26 May 2017 to Friday, 2 June 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 May 2017.

For determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 9 June 2017 to Tuesday, 13 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend as stated, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Branch Share Registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 8 June 2017.

Corporate Governance Code

In the opinion of the Directors, 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 year ended 31 December 2016, except the following:

Under Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During the year ended 31 December 2016, management has provided quarterly updates to all members of the board. Starting from the year ending 31 December 2017, management has resumed providing monthly updates to all members of the board.

Model Code for Securities Transactions

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 year ended 31 December 2016, all of the Directors confirmed that they have complied with the required standards set out in the Code of Conduct.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") which currently consists of three independent non-executive directors of the Company with written terms of reference which deal clearly with its authority and duties.

The Group's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee.

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position, and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Publication of Annual Report

The annual report for the year ended 31 December 2016 containing all relevant information required by the Listing Rules will be despatched to shareholders of the Company and published on the designated website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.hungfooktong.com) in due course.

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

Hong Kong, 28 March 2017

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.