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 2017

HIGHLIGHTS

- Revenue for the six months ended 30 June 2017 ("1H2017") increased by 2.3% when compared with the six months ended 30 June 2016 ("1H2016"), from HK$347.9 million to HK$355.8 million.
  - Revenue from retail business amounted to HK$260.8 million, increased by 0.8% compared with 1H2016 and accounting for 73.3% of the Group's total revenue, with a retail network comprising 134 retail shops in Hong Kong and Mainland China as at 30 June 2017.
  - Revenue from wholesale business amounted to HK$95.0 million, a rise of 6.6% from HK$89.0 million recorded in 1H2016, with a distribution network now covering 53 cities in 18 provinces, and the number of distributors in Mainland China has reached 73 as at 30 June 2017.
- Gross profit for 1H2017 increased to HK$223.0 million (1H2016: HK$216.4 million), and gross profit margin for 1H2017 rose modestly to 62.7%.
- Profit attributable to owners of the Company for 1H2017 was HK$3.0 million (1H2016: HK$1.4 million).
- Basic earnings per share for 1H2017 was HK0.46 cent (1H2016: HK0.22 cent).

INTERIM RESULTS

The board of directors (the "Board") of Hung Fook Tong Group Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2017 together with comparative figures for the corresponding period in 2016.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 30 June	
		2017	2016
	Note	***HK$'000***	*HK$'000*
Revenue	*3,4*	**355,815**	347,933
Cost of sales	*5*	**(132,863)**	(131,503)
Gross profit		**222,952**	216,430
Other income	*4*	**773**	492
Other losses, net	*4*	**(18)**	(443)
Selling and distribution costs	*5*	**(35,255)**	(35,813)
Administrative and operating expenses	*5*	**(184,729)**	(177,857)
Operating profit		**3,723**	2,809
Finance income		**68**	139
Finance costs		**(815)**	(1,236)
Finance costs, net		**(747)**	(1,097)
Profit before income tax		**2,976**	1,712
Income tax expense	*6*	**(196)**	(383)
Profit for the period		**2,780**	1,329
Profit attributable to:			
Owners of the Company		**3,040**	1,420
Non-controlling interests		**(260)**	(91)
		2,780	1,329
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (HK cent per share)	*7*	**0.46**	0.22

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	(Unaudited) Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Other comprehensive income/(loss):		
Item that may be reclassified to profit or loss		
– Currency translation differences	**508**	(726)
Other comprehensive income/(loss), net of tax	**508**	(726)
Total comprehensive income for the period	**3,288**	603
Total comprehensive income/(loss) attributable to:		
Owners of the Company	**3,502**	770
Non-controlling interests	**(214)**	(167)
	3,288	603

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2017** *HK$'000* **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**223,419**	226,990
Leasehold land and land use right	*10*	**47,837**	48,387
Prepayments and deposits		**28,027**	17,507
Deferred income tax assets		**9,016**	9,016
		308,299	301,900
Current assets			
Inventories		**30,654**	27,921
Trade receivables	*11*	**48,972**	53,659
Prepayments, deposits and other receivables		**27,776**	32,942
Amount due from a related company		**690**	690
Tax recoverable		**1,190**	4,400
Pledged bank deposits		**1,069**	1,066
Cash and cash equivalents		**134,807**	131,160
		245,158	251,838
Total assets		**553,457**	553,738
EQUITY			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Share premium		**214,999**	214,999
Reserves		**38,121**	34,619
		259,679	256,177
Non-controlling interests		**591**	805
Total equity		**260,270**	256,982

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at 30 June 2017 HK$'000 (Unaudited)	As at 31 December 2016 HK$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		**4,791**	3,521
Deferred income tax liabilities		**378**	378
Bank borrowings		**40,931**	44,942
		46,100	48,841
Current liabilities			
Trade payables	*12*	**26,014**	23,558
Accruals and other payables		**59,815**	62,416
Provision for reinstatement costs		**1,725**	2,877
Receipts in advance		**133,786**	133,329
Bank borrowings		**22,951**	22,813
Taxation payable		**2,796**	2,922
		247,087	247,915
Total liabilities		**293,187**	296,756
Total equity and liabilities		**553,457**	553,738
Net current (liabilities)/assets		**(1,929)**	3,923
Total assets less current liabilities		**306,370**	305,823

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 these 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 Hong Kong dollars ("HK$"), 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 2017 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

As at 30 June 2017, the Group's current liabilities exceeded its current assets by HK$1,929,000. Included within net current liabilities was non-refundable receipts in advance from customers of HK$133,786,000 which will reduce gradually over the time of each redemption by customers and are not expected to be settled in cash under normal business circumstances.

The future funding requirements of the Group are expected to be met through the cash flows generated from operating activities and the renewal of the revolving and term credit facility available from various international banks. As at 30 June 2017, there are undrawn facilities amounting to approximately HK$88,212,000 available to the Group. Based on the Group's history of its ability to obtain external financing, its operating performance and its expected future working capital requirements, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, the condensed consolidated financial information has been prepared on a going concern basis.

2.2 Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, 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 2017:

Amendment to HKAS 12	Income taxes
Amendment to HKAS 7	Statement of cash flows
Amendment to HKFRS 12	Disclosure of interest in other entities

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 2017 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
Amendment to HKAS 28	Investments in associates and joint ventures	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 16	Lease	1 January 2019
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

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, leasehold land and land use right, inventories, trade receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. They exclude deferred income tax assets, amount due from a related company, tax recoverable and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment for the six months ended 30 June 2017 and 2016.

Geographically, management considers the retail, wholesale and 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 2017 and 2016 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2017 and 2016 are as follows:

	(Unaudited) Six months ended 30 June 2017			
	Hong Kong retail *HK$'000*	**PRC retail** *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**256,297**	**6,033**	**97,088**	**359,418**
Less: Inter-segment revenue	**(1,482)**	**–**	**(2,121)**	**(3,603)**
Revenue from external customers	**254,815**	**6,033**	**94,967**	**355,815**
Segment results	**27,489**	**(1,317)**	**3,316**	**29,488**
Corporate expenses				**(25,765)**
Finance costs, net				**(747)**
Profit before income tax				**2,976**
Income tax expense				**(196)**
Profit for the period				**2,780**
Other segment items:				
Capital expenditure	**4,169**	**605**	**6,739**	**11,513**
Depreciation and amortisation	**11,342**	**397**	**4,186**	**15,925**
Interest income	**22**	**2**	**43**	**67**

3 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	Hong Kong retail	PRC retail	Wholesale	Total
	(Unaudited) Six months ended 30 June 2016			
	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 and amortisation	12,979	741	3,407	17,127
Interest income	90	–	49	139

The segment assets as at 30 June 2017 and 31 December 2016 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 2017 (Unaudited)					
Segment assets	**355,646**	**7,408**	**169,077**	**(4,239)**	**527,892**
Amount due from a related company					**690**
Tax recoverable					**1,190**
Deferred income tax assets					**9,016**
Corporate assets					**14,669**
Total assets					**553,457**
As at 31 December 2016 (Audited)					
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

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

4 REVENUE, OTHER INCOME AND OTHER LOSSES, NET

The Group's revenue, other income and other losses, net recognised during the six months period are as follows:

	(Unaudited) Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**345,662**	339,471
Revenue recognised upon expiry of pre-paid coupons and cards	**10,153**	8,462
	355,815	347,933
Other income		
Rental income	**–**	156
Franchise income	**–**	55
Insurance claim	**408**	–
Others	**365**	281
	773	492
Other losses, net		
Exchange difference	**108**	(387)
Losses on disposal of property, plant and equipment	**(126)**	(56)
	(18)	(443)

5 EXPENSE BY NATURE

	(Unaudited) Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Cost of inventories sold	**98,035**	97,585
Operating lease rental in respect of retail outlets		
– Minimum rental	**52,281**	47,716
– Contingent rental	**167**	156
Operating lease rental in respect of storage spaces and office premises	**10,017**	9,674
Advertising and promotional expenditure	**13,180**	13,864
Depreciation of property, plant and equipment *(Note 9)*	**15,210**	16,601
Amortisation of leasehold land and land use right *(Note 10)*	**715**	511
Depreciation of investment property *(Note 9)*	**–**	15
Communication and utilities	**16,321**	15,981
Employee benefit expenses (including directors' emoluments)	**115,308**	109,716
Provision for impairment of trade receivables	**74**	480
Impairment losses on property, plant and equipment *(Note 9)*	**–**	171
Legal and professional fees	**1,645**	1,773
Auditors' remuneration		
– Audit services	**570**	525
– Non-audit services	**179**	166
Tools, repair and maintenance expenses	**4,790**	5,558
Transportation and distribution expenses	**14,525**	14,980
Others	**9,830**	9,701
Total cost of sales, selling and distribution costs and administrative and operating expenses	**352,847**	345,173

6 INCOME TAX EXPENSE

Hong Kong Profits Tax and PRC Corporate Income Tax ("CIT") have been provided at the rate of 16.5% and 25%, respectively (six months ended 30 June 2016: 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	
	2017	2016
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong Profits Tax on profit for the period	**–**	–
– PRC CIT on profit for the period	**68**	340
– Under-provision in prior years	**128**	30
Deferred income tax	**–**	13
Income tax expense	**196**	383

7 EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June	
	2017	2016
Profit attributable to owners of the Company (HK$'000)	**3,040**	1,420
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**655,944**	655,944
Earnings per share attributable to owners of the Company		
– Basic earnings per share (HK cent)	**0.46**	0.22
– Diluted earnings per share (HK cent)	**0.46**	0.22

(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 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. 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.

Diluted earnings per share for the six months ended 30 June 2017 and 30 June 2016 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

8 DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

9 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

9.1 Property, plant and equipment

	(Unaudited) Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
At 1 January	**226,990**	242,102
Additions	**11,513**	9,447
Disposals	**(126)**	(57)
Depreciation *(Note 5)*	**(15,210)**	(16,601)
Impairment losses *(Note 5)*	**–**	(171)
Exchange difference	**252**	(327)
At 30 June	**223,419**	234,393

Depreciation of HK$4,543,000 (30 June 2016: HK$4,349,000) has been charged in 'cost of sales', HK$10,602,000 (30 June 2016: HK$12,133,000) in 'administrative and operating expenses' and HK$65,000 (30 June 2016: HK$119,000) in 'selling and distribution costs' for the six months ended 30 June 2017.

9.2 Investment property

	(Unaudited) Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
At 1 January	**–**	800
Depreciation *(Note 5)*	**–**	(15)
At 30 June	**–**	785

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

No depreciation has been charged for the six months ended 30 June 2017 (30 June 2016: HK$15,000) in 'administrative and operating expenses' as the investment property has been disposed of during the year ended 31 December 2016.

The investment property was sold to an independent third party in December 2016 at a consideration of HK$9,000,000. A gain of HK$8,227,000 has been recognised in 'other gains/ (losses), net' for the year ended 31 December 2016.

10 LEASEHOLD LAND AND LAND USE RIGHT

	(Unaudited) Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
At 1 January	**48,387**	31,965
Amortisation *(Note 5)*	**(715)**	(511)
Exchange difference	**165**	–
At 30 June	**47,837**	31,454

Amortisation of leasehold land and land use right of HK$715,000 (30 June 2016: HK$511,000) has been charged in 'administrative and operating expenses' for the six months ended 30 June 2017.

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Leasehold land and land use right located in:		
– Hong Kong	**30,430**	30,942
– PRC	**17,407**	17,445
	47,837	48,387

The useful life of the leasehold land and land use right are both 50 years.

11 TRADE RECEIVABLES

	As at 30 June 2017 *HK$'000* (Unaudited)	As at 31 December 2016 *HK$'000* (Audited)
Trade receivables	**51,335**	59,199
Less: Provision for impairment of trade receivables, net	**(2,363)**	(5,540)
	48,972	53,659

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade receivables, based on invoice date are as follows:

	As at 30 June 2017 *HK$'000* (Unaudited)	As at 31 December 2016 *HK$'000* (Audited)
0 – 30 days	**28,120**	23,665
31 – 90 days	**17,747**	26,520
Over 90 days	**3,105**	3,474
	48,972	53,659

12 TRADE PAYABLES

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables, based on invoice date are as follows:

	As at 30 June 2017 *HK$'000* (Unaudited)	As at 31 December 2016 *HK$'000* (Audited)
0 – 30 days	**15,555**	11,898
31 – 60 days	**7,808**	10,298
61 – 90 days	**2,590**	1,193
Over 90 days	**61**	169
	26,014	23,558

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2017 ("1H2017"), the retail sector continued to be challenging in Hong Kong and Mainland China, though signs that the two markets have bottomed out are beginning to emerge. In Hong Kong, retail sales value of the market fell 0.6% in 1H2017 as compared to the same period of last year ("1H2016"), whereas for the month of June 2017, sales value was up 0.1%, marking the fourth straight month of growth for the retail sector. In Mainland China, retail sales of consumer goods grew 10.4% in 1H2017, with the pace slightly faster than 10.0% for the first quarter.

Owing to strong brand recognition in Hong Kong, and an improving wholesale business, the Group recorded revenue of HK$355.8 million as at 1H2017 (1H2016: HK$347.9 million), representing a year-on-year increase of 2.3%. Gross profit increased by 3.0% to HK$223.0 million (1H2016: HK$216.4 million), while gross profit margin rose modestly to 62.7% (1H2016: 62.2%) owing to enhanced procurement procedures and effective cost control measures. As a result, net profit increased to HK$3.0 million (1H2016: HK$1.4 million), with a turnaround achieved in the wholesale segment.

BUSINESS SEGMENT ANALYSIS

Retail

The retail segment recorded revenue totalling HK$260.8 million in 1H2017 (1H2016: HK$258.9 million), representing a year-on-year increase of 0.8%. However, segment profit declined by 17.9% to HK$26.2 million (1H2016: HK$31.9 million), as retail shops faced higher operating costs.

Hong Kong

Revenue from the Hong Kong retail operation amounted to HK$254.8 million (1H2016: HK$251.9 million), up 1.2% year-on-year, and accounted for 71.6% of total revenue. The increase was primarily due to further expansion of the local retail network. Segmental profit of HK$27.5 million was recorded, down 20.6% from the preceding year (1H2016: HK$34.6 million), owing to the rise in labour cost, and an increase in rent resulting from a greater number of shops as well as renewal of leasing contracts.

As at 30 June 2017, the Group had a total of 117 self-operated shops in Hong Kong, having opened two new shops, located in the Central and Lam Tin MTR stations during 1H2017. The Group thus remained the largest herbal retailer in Hong Kong based on retail network size.

Besides operating a large retail network, the Group also has a diverse product portfolio that was further expanded with the introduction of more than 40 new or seasonal products during 1H2017. This included the Joyous Series (自家喜慶系列) which, partly due to the introduction of new products such as Organic Chicken Essence (有機滴雞精) and larger-size containers of Home-Made Stewed Pork Trotter and Ginger in Sweet Vinegar (自家豬腳薑醋), achieved double-digit year-on-year sales growth.

To continue to raise awareness and the stature of the Hung Fook Tong brand, the Group officially launched its food truck in Hong Kong in February 2017. The food truck has since been operating in eight designated tourist attractions in the city, and will continue to operate during the two-year Pilot Scheme. The management views the initiative as important not because of financial returns, but rather because the food truck will serve as a powerful tool for reinforcing the image of Hung Fook Tong as a wholesome local brand and trendsetter.

Yet another means of reaching out to the public, and particularly the Group's loyal customers, is via JIKA CLUB. During 1H2017, membership grew to over 690,000, among which included Platinum Members who are highly brand loyal and have significant spending power. The Group has also reached out to customers via new technologies, including its own mobile application which offers added convenience, facilitating greater spending. The Group has courted the corporate sector as well, leading to the securing of 1,300 corporate clients as at the end of 1H2017.

Mainland China

Revenue from the Mainland China retail operation contracted by 13.4% year-on-year to HK$6.0 million (1H2016: HK$7.0 million), owing to the further closure of underperforming shops. Such closures were also part of the management's efforts to re-allocate and optimise resources to strengthen its exposure in Guangdong where there is already significant public awareness of the Hung Fook Tong brand. Correspondingly, a new shop was opened in Guangzhou IFC shopping centre in January 2017. The Group had a total of 17 retail shops in the city as at 30 June 2017. In rationalising operations towards achieving the aforementioned objectives, segment loss further narrowed to HK$1.3 million (1H2016: loss of HK$2.7 million).

Wholesale

Revenue from the wholesale segment rose 6.6% year-on-year to HK$95.0 million (1H2016: HK$89.0 million), owing to improving conditions in both the Hong Kong and Mainland China markets. Moreover, profit achieved a turnaround, climbing to HK$3.3 million versus a loss of HK$8.0 million for the corresponding period last year. The positive development was achieved on the back of effective cost controls and lower advertising and promotion expenses as well as less listing fees (上架費) paid to third-party retailers, which is in contrast with 1H2016 when the Group was impacted due to the launch of new products.

Hong Kong

The Hong Kong wholesale business reported revenue of HK$57.9 million as at 1H2017 (1H2016: HK$53.0 million), an increase of 9.3% over the corresponding period of last year. The upturn was driven by closer cooperation with key accounts as well as the better performance of a key distributor.

During 1H2017, significant effort was placed on securing more retail outlets, including bakery shops and Asian supermarkets. Concerning the overseas markets, significant progress was duly achieved in Taiwan where the Group's Iced Lemon Tea Drink (凍檸茶) and Common Selfheal Fruit-spike Drink (夏枯草) became available from one of the largest convenience store chain operators, which has over 3,000 outlets in Taiwan.

Mainland China

The Mainland China wholesale operation was able to achieve income growth during 1H2017 despite the beverage industry suffering from fierce competition, generating revenue of HK$37.1 million (1H2016: HK$36.0 million) or a year-on-year increase of 2.8%. Such growth was primarily the result of imposing more stringent control over rebates and discounts granted to certain accounts, as well as the continuously improving markets of Guangzhou and Beijing.

The Group has maintained a strong presence in Mainland China, with a distribution network now covering 53 cities in 18 provinces as at 30 June 2017, and the number of distributors now totalling 73. During 1H2017, the Group continued to introduce more chilled drink products with higher margins like fresh herbal tea to key accounts in Guangzhou and Shanghai, achieving favourable response from the respective markets.

Production Facilities

With plans to construct a new production facility in Kaiping City, Guangdong, the Group duly entered into construction contracts in March and July 2017. The aggregate amount of consideration of the construction contracts is RMB41.8 million (approximately HK$47.4 million). Payment of the consideration will be financed primarily by internal resources of the Group, and/or through bank borrowings. Construction of the Kaiping City plant is expected to be completed by April 2018. The new plant will enable the Group to support the rising demand for its products through highly automated and cost effective production. This in turn will translate into lower production cost in the long run.

PROSPECTS

The Hong Kong and Mainland China retail markets are beginning to stabilise, with recovery expected on the horizon. In Hong Kong market, retail sales is expected to record a mild growth of 1% this year, according to the Hong Kong Retail Management Association while in Mainland China market, retail sales is expected to grow 10% in 2017 as forecasted by the Ministry of Commerce. The management will nonetheless remain cautious, and will strive to maintain leadership in the Hong Kong retail market while carefully navigating through the Mainland China market. Controlling cost will therefore remain an important priority, as will the need to reinforce the image of Hung Fook Tong as a healthy, trustworthy and innovative brand. Even though the Hung Fook Tong Online platform is still in its infancy, it possesses potential and the management trusts that the platform can also play a valuable role in facilitating the Group's development – complementing the brick-and-mortar business in the future. To encourage its development, the management will introduce more customised products and services via the platform.

Retail

Hong Kong

As part of efforts to protect the Group's leading position in Hong Kong, the management will employ a prudent shop expansion strategy, as reflected by the opening of two retail points in a shopping mall in Tuen Mun and at the Kennedy Town MTR station respectively in the second half of 2017 ("2H2017"). In the meantime, the management will remain resolute in controlling rental cost by optimising the Hong Kong retail network.

Just as the management will judiciously expand the Group's retail presence, so too it will seek to sensibly drive same-store sales growth. Correspondingly, focus will be placed on promoting the Joyous Series (自家喜慶系列), particularly Organic Chicken Essence (有機滴雞精), by reaching out to the public via social media platforms. The Group will also introduce more vegetarian options to meet the preferences of this consumer segment. What is more, in July this year the Group introduced a payment function via its mobile application to facilitate electronic payment and the use of electronic coupons by its customers, which in turn will enhance operational efficiency and reduce printing costs in the long run. JIKA Club will also introduce member-engagement campaigns to encourage visits and greater spending at its retail chain.

Mainland China

In Mainland China, the management plans to introduce the Joyous Series (自家喜慶系列) and associated gift vouchers in 2H2017, aiming to replicate the success achieved in Hong Kong.

Wholesale

Hong Kong

To further reinforce the Group's leading position in Hong Kong, during 1H2017, the management has recruited local celebrity Mr. Bob Cheung (張彥博) to serve as one of the brand ambassadors. He will be involved in a series of product awareness campaigns that the Group will employ to launch its newly packaged Sugarcane Juice Drink Series (甘蔗汁). In addition, the Group will also develop exclusive products with different key accounts so as to capture opportunities during the summer period, which is the traditional peak season.

Mainland China

The management will err on the side of caution in developing the Mainland China wholesale business given the fast-changing nature and competitiveness of the market. With the growing popularity of herbal drinks, sports drinks and ready-to-drink teas, the Group will duly cater for such demand by encouraging sales of associated products from its portfolio. The management will also leverage its competitive edges of "Made in Hong Kong" and high quality to enhance exposure, particularly with regard to chilled products, given the large number of players in the market.

In view of unique consumer preferences that can vary significantly from region to region in Mainland China, the management will develop a clear product portfolio that addresses such differences. It will also seek to deepen market penetration by way of securing new key accounts, which also opens to possibility for the Group to extend product coverage. And to directly entice consumers, the Group will introduce new products that have appealing packaging, such as Sparkling Salted Mandarin Drink (有氣鹹柑桔), Dessert with Coconut Milk, Mixed Beans and Milk (喳咋) and Passion Fruit with Honey Drink (百香果).

Besides reaching consumers through traditional channels, the Group will further leverage online retailers, which along with Yihaodian (一號店), Jingdong (JD.com, 京東) and sfbest.com (順豐優選), will now include Miss Fresh (每日優鮮) and a greater presence in Tmall (天貓) starting in 2H2017.

For the overseas market, the Group will seek to further strengthen its presence in the Taiwan market through closer cooperation with key accounts.

CONCLUSION

With a solid foundation built from three decades worth of industry experience and an iconic brand synonymous with quality, the Group will seek to capitalise on such strengths to promulgate the "3H" concept of "*Health*, *Herbal and Home*". This concept will be put into practice through the introduction of more innovative products to the market that are underpinned by traditional Chinese herbal wisdom. They will include more low-sugar and low-sodium options that capture opportunities from the health-conscious consumer segment. Through these and other efforts, the Group will strive to sustain its leading market position in Hong Kong and achieve a turnaround in Mainland China.

FINANCIAL REVIEW

Revenue

In 1H2017, the Group's revenue amounted to HK$355.8 million, representing an increase of 2.3% from HK$347.9 million in 1H2016. The increase was attributed to an increase of 1.2% in Hong Kong retail sales and 6.6% in wholesales, as a result of the continuous retail business expansion and the successful implementation of more effective measures in the granting of rebates and discounts in the wholesale segment.

Cost of Sales

In 1H2017, the Group's cost of sales amounted to HK$132.9 million, representing an increase of 1.0% from HK$131.5 million in 1H2016. As a percentage of revenue, cost of sales represented 37.3% and 37.8% in 1H2017 and 1H2016 respectively.

Gross Profit and Gross Profit Margin

In 1H2017, the Group's gross profit amounted to HK$223.0 million, representing an increase of 3.0% from HK$216.4 million in 1H2016. The Group's gross profit margin increased by 0.5 percentage point to 62.7% as compared to 62.2% in 1H2016. The increase was mainly due to the enhancement of procurement procedures and the successful implementation of cost control measures.

Staff Costs

In 1H2017, the Group's staff costs amounted to HK$115.3 million, representing an increase of 5.1% from HK$109.7 million in 1H2016. The increase was mainly due to the increase in retail shop staff salaries as shop number increased and office staff salary increment. The staff cost-to-revenue ratio was 32.4% as compared to 31.5% in 1H2016.

Rental Expenses

In 1H2017, the Group's rental expenses in relation to its retail shops amounted to HK$52.4 million, representing an increase of 9.6% from HK$47.9 million in 1H2016. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expense-to-revenue ratio (Hong Kong and Mainland China) was 20.1% as compared to 18.5% in 1H2016.

Advertising and Promotional Expenditure

In 1H2017, the Group's advertising and promotional expenditure amounted to HK$13.2 million, representing a decrease of 4.9% from HK$13.9 million in 1H2016. This accounted for 3.7% and 4.0% respectively in percentage to revenue in 1H2017 and 1H2016. More marketing expenses had been incurred for the Group's 30th anniversary celebration in 1H2016.

Depreciation and Amortisation

In 1H2017, the depreciation and amortisation of the Group amounted to HK$15.9 million, representing a decrease of 6.9% from HK$17.1 million in 1H2016. This accounted for 4.5% and 4.9% respectively in percentage to revenue in 1H2017 and 1H2016.

Income Tax Expense

In 1H2017, the effective income tax rate of the Group decreased from 22.4% to 6.7% due to the utilisation of previously unrecognised tax loss.

Net Profit

Profit attributable to owners of the Company for the six months ended 30 June 2017 was HK$3.0 million, representing an increase of 114.1% from HK$1.4 million in 1H2016. The net profit margin (calculated as profit attributable to owners of the Company as a ratio of revenue) for six months ended 30 June 2017 was 0.9%, as compared to 0.4% in 1H2016. The increase is mainly due to effective operational management and increasing benefits derived from greater economies of scale.

Basic earnings per share for the period amounted to HK0.46 cent, as compared to HK0.22 cent in 1H2016.

Capital Expenditure

During 1H2017, capital expenditure amounted to HK$11.5 million (1H2016: HK$9.4 million). This amount was used mainly for the opening of new shops, revamping of existing retail shops, purchase/replacement of production facilities in Mainland China and Tai Po plants, as well as construction of new production plant in Kaiping, China.

Liquidity and Financial Resources Review

The Group is liquidity and financially sound despite recording net current liabilities of HK$1.9 million as at 30 June 2017. Out of the total current liabilities of HK$247.1 million was non-refundable receipts in advance from customers of HK$133.8 million which will reduce gradually over the time of each redemption and are not expected to be settled in cash under normal business circumstances. During 1H2017, the Group continued to have strong cash flows generated from operating activities. As at 30 June 2017, the Group had bank deposits and cash of HK$135.9 million (31 December 2016: HK$132.2 million) and undrawn banking facilities of HK$88.2 million (31 December 2016: HK$103.2 million).

As at 30 June 2017, the gearing ratio of the Group was 0.25 (31 December 2016: 0.26), which was calculated based on total debts divided by total equity attributable to owners of the Company.

As at 30 June 2017, the Group had total banking facilities of HK$153.6 million (31 December 2016: HK$172.4 million) of which HK$65.4 million (31 December 2016: HK$69.2 million) has been utilised.

As at 30 June 2017, the Group had pledged bank deposits of HK$1.1 million (31 December 2016: HK$1.1 million). The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable it to continue business in a manner consistent with the short-term and long-term financial strategies of the Group.

Foreign Currency Risk

The Group operates mainly in Hong Kong and Mainland China and conducts the business primarily in Hong Kong dollar and Renminbi. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi. 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 during the six months ended 30 June 2017.

Contingent Liabilities

(i) Taclon Industries Limited ("Taclon"), a subsidiary of the Company, is involved in a potential litigation the claim of which amounted to approximately HK$10.3 million (the "Alleged Debt"). It is the understanding of the directors of the Company 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 Investment 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 the Directors consider an outflow of resources is not probable.

Human Resources

As at 30 June 2017, the Group employed approximately 1,428 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 six months ended 30 June 2017, various training activities, such as orientation on both frontline and back office operations, customer services and 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 for the production department 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

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 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 2017.

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 2017, all of the Directors confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct.

Audit Committee

The Company has established an audit committee ("**Audit Committee**") which currently consists of all three independent non-executive Directors of the Company with written terms of reference which deal clearly with its authority and duties. Amongst the Audit Committee's principal duties is to review and supervise the Company's financial reporting process, risk management and internal control systems of the Group, including the review of the unaudited interim financial information for the six months ended 30 June 2017.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the unaudited interim financial information for the six months ended 30 June 2017 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 2017, 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 2017 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 and Executive Director

Hong Kong, 29 August 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.