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 2017

HIGHLIGHTS

- Revenue for the year ended 31 December 2017 ("2017") increased by 3.7% to HK$741.9 million from HK$715.2 million for the year ended 31 December 2016 ("2016").

  – Revenue from retail business increased by 1.9% to HK$528.2 million, with retail network comprising 130 retail shops in Hong Kong and Mainland China as at 31 December 2017.

  – Revenue from wholesale business increased by 8.6% to HK$213.6 million, with distribution network now covering 53 cities in 18 provinces, and number of distributors in Mainland China at 73.

- Gross profit for 2017 increased by 5.0% to HK$463.0 million from HK$440.9 million in 2016, and gross profit margin for 2017 increased by 0.7 percentage point to 62.4% as compared to 61.7% in 2016.

- Profit attributable to owners of the Company for 2017 was HK$8.1 million (2016: HK$9.0 million).

- Earnings per share for 2017 was HK1.24 cents (2016: HK1.37 cents).

- Proposed final dividend and special dividend of HK0.37 cent and HK0.31 cent per ordinary share, respectively (totalling HK0.68 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 2017 together with comparative figures for the previous financial year 2016, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

		Year ended 31 December	
		2017	2016
	Note	***HK$'000***	*HK$'000*
Revenue	*3, 4*	**741,859**	715,207
Cost of sales	*6*	**(278,878)**	(274,276)
Gross profit		**462,981**	440,931
Other income	*5*	**713**	1,245
Other (losses)/gains, net	*5*	**(106)**	7,945
Selling and distribution costs	*6*	**(78,120)**	(76,506)
Administrative and operating expenses	*6*	**(376,323)**	(367,422)
Operating profit		**9,145**	6,193
Finance income	*7*	**133**	202
Finance costs	*7*	**(937)**	(2,027)
Finance costs, net	*7*	**(804)**	(1,825)
Profit before income tax		**8,341**	4,368
Income tax (expense)/credit	*8*	**(339)**	4,275
Profit for the year		**8,002**	8,643
Profit/(loss) attributable to:			
Owners of the Company		**8,106**	8,961
Non-controlling interests		**(104)**	(318)
		8,002	8,643

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
– Currency translation differences		**7,252**	(4,110)
Other comprehensive income/(loss), net of tax		**7,252**	(4,110)
Total comprehensive income for the year		**15,254**	4,533
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**15,021**	5,177
Non-controlling interests		**233**	(644)
		15,254	4,533
Earnings per share attributable to owners of the Company			
– Basic and diluted (HK cents per share)	*9*	**1.24**	1.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		As at 31 December	
		2017	2016
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Leasehold land		**58,054**	48,387
Property, plant and equipment		**236,843**	226,990
Prepayments and deposits		**28,273**	17,507
Deferred income tax assets		**8,753**	9,016
		331,923	301,900
Current assets			
Inventories		**29,899**	27,921
Trade receivables	*11*	**54,935**	53,659
Prepayments, deposits and other receivables		**30,603**	32,942
Amount due from a related company		**690**	690
Tax recoverable		**986**	4,400
Pledged bank deposits		**1,070**	1,066
Cash and cash equivalents		**113,588**	131,160
		231,771	251,838
Total assets		**563,694**	553,738
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**6,559**	6,559
Share premium	*12*	**214,999**	214,999
Reserves		**44,655**	34,619
		266,213	256,177
Non-controlling interests		**1,038**	805
Total equity		**267,251**	256,982

	Note	As at 31 December 2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		**4,994**	3,521
Deferred income tax liabilities		**441**	378
Bank borrowings		**31,659**	44,942
		37,094	48,841
Current liabilities			
Trade payables	*13*	**28,378**	23,558
Accruals and other payables	*14*	**59,640**	62,416
Provision for reinstatement costs		**1,529**	2,877
Receipts in advance		**146,663**	133,329
Bank borrowings		**20,783**	22,813
Taxation payable		**2,356**	2,922
		259,349	247,915
Total liabilities		**296,443**	296,756
Total equity and liabilities		**563,694**	553,738
Net current (liabilities)/assets		**(27,578)**	3,923
Total assets less current liabilities		**304,345**	305,823

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 27 March 2018.

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 disclosure requirements of the Hong Kong Companies Ordinance (Cap.622). They have been prepared under the historical cost convention.

The preparation of the consolidated 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 Group's current liabilities exceeded its current assets by HK$27,578,000 as at 31 December 2017. Sales of prepaid coupons to customers resulted in non-refundable receipts in advance included in current liabilities. Receipts in advance will reduce gradually over the time of each redemption by customers and are not expected to be settled in cash under normal business circumstances. Excluding the non-refundable receipts in advance of HK$146,663,000 (31 December 2016: HK$133,329,000) included in current liabilities, the Group would have net current assets of HK$119,085,000 as at 31 December 2017 (31 December 2016: HK$137,252,000). Based on the Group's history of its operating performance, availability of banking facilities and its expected future working capital requirements, the directors consider that there are sufficient financial resources available to the Group to meet its obligations as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

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 2017:

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

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 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to HKAS 28	Investments in associates and joint ventures	1 January 2018
Amendments to HKAS 40	Transfers of investment property	1 January 2018
Amendments to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018 or when the entity first applies HKFRS 9
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKAS 12	Income Taxes	1 January 2019
Amendments to HKAS 23	Borrowing Costs	1 January 2019
Amendments to HKFRS 3	Business Combination	1 January 2019
Amendments to HKFRS 11	Joint Arrangements	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

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 2017 and 2016 is as follows:

	Year ended 31 December 2017			
	Hong Kong Retail *HK$'000*	**PRC Retail** *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**518,767**	**12,160**	**217,854**	**748,781**
Less: Inter-segment revenue	**(2,618)**	**(77)**	**(4,227)**	**(6,922)**
Revenue from external customers	**516,149**	**12,083**	**213,627**	**741,859**
Segment results	**50,721**	**(2,192)**	**6,493**	**55,022**
Corporate expenses				**(45,877)**
Finance costs, net				**(804)**
Profit before income tax				**8,341**
Income tax expense				**(339)**
Profit for the year				**8,002**
Other segment items:				
Capital expenditure	**9,882**	**660**	**36,783**	**47,325**
Depreciation and amortisation	**21,683**	**769**	**8,412**	**30,864**
Provision for impairment on trade receivables	**24**	**–**	**–**	**24**
Interest income	**45**	**13**	**75**	**133**

	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	6	72	202

The segment assets as at 31 December 2017 and 2016 are as follows:

	Hong Kong Retail ***HK$'000***	**PRC Retail** ***HK$'000***	**Wholesale** ***HK$'000***	**Elimination** ***HK$'000***	**Total** ***HK$'000***
As at 31 December 2017					
Segment assets	**333,376**	**7,063**	**208,122**	**(4,243)**	**544,318**
Amount due from a related company					**690**
Tax recoverable					**986**
Deferred income tax assets					**8,753**
Corporate assets					**8,947**
Total assets					**563,694**
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

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 2017, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2016: 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	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**632,672**	612,290
The PRC	**93,299**	85,809
Overseas countries	**15,888**	17,108
	741,859	715,207

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2017 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	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**381,137**	421,660
The PRC	**163,181**	112,055
	544,318	533,715

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

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**240,436**	245,585
The PRC	**82,734**	47,299
	323,170	292,884

4 REVENUE

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

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Sale of goods	**721,983**	696,592
Revenue recognised upon expiry of pre-paid coupons and cards	**19,876**	18,615
	741,859	715,207

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

Other income

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Rental income	**–**	312
Franchise income	**–**	55
Rebate from utility company	**–**	460
Insurance claim	**408**	–
Others	**305**	418
	713	1,245

Other (losses)/gains, net

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Exchange difference	**10**	(102)
Losses on disposal of property, plant and equipment	**(116)**	(142)
Gain on disposal of an investment property	**–**	8,227
Others	**–**	(38)
	(106)	7,945

6 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Cost of inventories sold	**205,623**	199,974
Operating lease rental in respect of retail outlets		
– Minimum rental	**107,006**	98,722
– Contingent rental	**297**	338
Operating lease rental in respect of storage spaces and office premises	**21,054**	20,325
Advertising and promotional expenditure	**28,815**	33,458
Amortisation of leasehold land	**1,416**	1,023
Depreciation of property, plant and equipment	**29,448**	32,756
Depreciation of investment property	**–**	27
Communication and utilities	**34,683**	33,704
Employee benefit expenses (including directors' emoluments)	**236,064**	221,751
Reversal of provision for obsolete inventories	**(446)**	(50)
Provision for impairment on trade receivables	**24**	5,542
Impairment losses on property, plant and equipment	**–**	169
Legal and professional fees	**3,811**	4,003
Auditors' remuneration		
– Audit services	**2,850**	2,848
– Non-audit services	**259**	273
Tools, repair and maintenance expenses	**9,825**	10,952
Transportation and distribution expenses	**34,329**	33,980
Others	**18,263**	18,409
Total cost of sales, selling and distribution costs and administrative and operating expenses	**733,321**	718,204

7 FINANCE COSTS, NET

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Finance income:		
– Interest income	**133**	202
Finance costs:		
– Interest expenses on borrowings	**(916)**	(1,957)
– Interest expenses on finance leases	**(21)**	(70)
	(937)	(2,027)
Finance costs, net	**(804)**	(1,825)

8 INCOME TAX EXPENSE/(CREDIT)

Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% for the year ended 31 December 2017 (2016: 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% (2016: 25%).

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

	Year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax on profits for the year	**–**	–
PRC CIT on profits for the year	**216**	929
Over-provision in prior years	**(206)**	(530)
Deferred income tax	**329**	(4,674)
Income tax expense/(credit)	**339**	(4,275)

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	
	2017	2016
Profit attributable to owners of the Company (HK$'000)	**8,106**	8,961
Weighted average number of ordinary shares for the calculation of basic earnings per share (thousands)	**655,944**	655,944
Earnings per share attributable to owners of the Company		
– Basic earnings per share (HK cents)	**1.24**	1.37
– Diluted earnings per share (HK cents)	**1.24**	1.37

(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. As at 31 December 2016, 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. There are no outstanding share options as at 31 December 2017.

Diluted earnings per share for the year ended 31 December 2017 and 2016 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

10 DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends attributable to the year		
Proposed final dividend of HK0.37 cent (2016: HK0.41 cent) per ordinary share	**2,427**	2,689
Proposed special dividend of HK0.31 cent (2016: HK0.35 cent) per ordinary share	**2,033**	2,296
	4,460	4,985
Dividends paid during the year	**4,985**	4,985

A final dividend and a special dividend in respect of the year ended 31 December 2017 of HK0.37 cent and HK0.31 cent per ordinary share respectively, amounting to a total dividend of HK$4,460,000 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. 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 2018.

11 TRADE RECEIVABLES

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**57,348**	59,199
Less: Provision for impairment of trade receivables	**(2,413)**	(5,540)
Trade receivables, net	**54,935**	53,659

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

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
Less than 30 days	**23,320**	23,665
31-90 days	**26,459**	26,520
Over 90 days	**5,156**	3,474
	54,935	53,659

As at 31 December 2017, trade receivables of HK$20,353,000 (2016: HK$17,220,000) were past due but not impaired. These are related 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	
	2017	2016
	HK$'000	*HK$'000*
Overdue		
Less than 30 days	**11,645**	9,151
31-90 days	**5,028**	4,975
Over 90 days	**3,680**	3,094
	20,353	17,220

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

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
HK$	**40,254**	42,989
RMB	**14,681**	10,670
	54,935	53,659

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

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**5,540**	228
Provision for impairment of trade receivables *(Note 6)*	**24**	5,542
Receivables written off during the year as uncollectible	**(3,268)**	–
Exchange difference	**117**	(230)
At 31 December	**2,413**	5,540

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

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 2016 and 31 December 2017	1,000,000,000	10,000,000

	Number of shares	Nominal value of Ordinary shares *HK$*	Share premium *HK$*
Issued and fully paid:			
At 1 January 2016, 31 December 2016 and 31 December 2017	655,944,000	6,559,440	214,998,135

13 TRADE PAYABLES

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
Trade payables	**28,378**	23,558

As at 31 December 2017, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**14,688**	11,898
31 to 60 days	**11,150**	10,298
61 to 90 days	**2,457**	1,193
Over 90 days	**83**	169
	28,378	23,558

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

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
HK$	**16,165**	13,363
RMB	**12,213**	10,195
	28,378	23,558

14 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
Accruals for employee benefit expenses	**23,188**	22,698
Accruals for marketing and promotional expenses	**1,461**	2,564
Accruals for sales rebate	**1,314**	2,397
Rental and related expenses payable	**5,300**	5,136
Office and utilities expenses payable	**2,811**	2,786
Deferred revenue	**1,266**	1,760
Consideration payable for property, plant and equipment acquired	**4,189**	3,468
Accruals for transportation and delivery charges	**5,846**	8,116
Accruals for audit fee	**2,557**	2,719
Other accruals and other payables	**11,708**	10,772
	59,640	62,416

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

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
HK$	**46,553**	51,441
RMB	**13,087**	10,975
	59,640	62,416

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Over the past year, the Hong Kong and Mainland China retail sectors experienced a modest recovery, though the latter remained challenging for many retailers. Owing to strong recognition of the Hung Fook Tong brand among the Hong Kong public, and improvement in its wholesale business on both sides of the border, the Group was able to report a year-on-year increase in total revenue of 3.7% to HK$741.9 million for the financial year ended 31 December 2017 (2016: HK$715.2 million). During the same period, gross profit rose by 5.0% to HK$463.0 million (2016: HK$440.9 million) on the back of the solid performance of the wholesale operation. Gross profit margin for 2017 increased by 0.7 percentage point to 62.4% (2016: 61.7%) due to effective cost controls. Net profit declined to HK$8.1 million (2016: HK$9.0 million). The discrepancy was due to a one-off gain of HK$8.2 million from the disposal of an investment property that the Group benefited from in 2016. If not for the one-off gain, the net profit for the financial year ended 31 December 2017 would have risen year-on-year by HK$7.4 million. The upturn can largely be attributed to an improvement in the wholesale segment.

The Group is in a healthy financial position with HK$113.6 million in cash and cash equivalents, and continues to enjoy strong cash flows with healthy net cash generated from operating activities.

BUSINESS SEGMENT ANALYSIS

Retail

Even though revenue from the retail segment achieved a modest year-on-year increase of 1.9% to HK$528.2 million (2016: HK$518.4 million), profit slipped by 18.5% to HK$48.5 million (2016: HK$59.5 million), due mainly to the decline in profit from the Hong Kong retail operation as a consequence of increases in raw material, staff and rental costs.

Hong Kong

The Hong Kong retail operation continued to be the largest revenue contributor of the Group, generating HK$516.1 million (2016: HK$504.0 million) in revenue for the financial year presenting a year-on-year increase of 2.4% and accounting for 69.6% of total revenue. The increment can mainly be attributed to contributions made by new shops opened during the year and partly as the result of additional contributions from the Hung Fook Tong Food Truck. Segment profit fell, however, by 19.9% to HK$50.7 million (2016: HK$63.4 million) due to the rise in raw material and staff costs, the latter resulting from an increase in wage level. Furthermore, the Group's rental expenses increased as the result of contract renewals and opening of new shops.

During the financial year, the Group exercised utmost caution in implementing its expansion plan, opening a total of four new shops. The openings involved new sales points in the Central and Lam Tin MTR stations, and at a shopping mall and a hospital respectively. In total, the Group has 115 self-operated shops in Hong Kong as at 31 December 2017, thus remaining the largest herbal retailer in the city based on retail network size.

In respect of the Group's product portfolio, it was further augmented during the financial year with the introduction of over 70 new or seasonal products, including the Organic Chicken Essence (有機滴雞精) which helped to further promote the Joyous Series (自家喜慶系列).

Besides introducing new products to stimulate consumers' taste buds, the Group also sought to enrich their consumption experience. To do so, it opened its first ever herbal-themed Pompompurin (布甸狗) pop-up café in Amoy Plaza in Kowloon Bay, which offered an exclusive selection of healthy products. Also as a means of reaching out to its customers, the Group sought to increase the number of JIKA CLUB members – membership has increased by about 95,000 during the financial year, reaching a total of more than 730,000 members. Not ignoring the importance of tech-savvy consumers, the Group introduced its own mobile application that facilitates electronic payment and enables the use of electronic coupons, thus helping to enhance operational efficiency and reduce costs over the long term.

Yet another means of reaching the masses has been the operation of its food truck, which was launched in February 2017. While contributions from the food truck were encouraging, the management views the vehicle's principal role as that of a promotional device, helping to reinforce Hung Fook Tong's image as a local brand with a rich history yet also being a trendsetter.

As for online consumers, the "Hung Fook Tong Online" platform has continued to make progress in its second year of operation. Improvements were achieved in key metrics including sales amount, average basket value and number of registered members, all of which recorded increases. And to cap off an encouraging 2017, Hung Fook Tong Online was recognised as "Quality E-Shop" by the Hong Kong Retail Management Association ("HKRMA"), under its "Quality E-Shop Recognition Scheme (優質網店認證計劃)".

Mainland China

During the financial year, revenue derived from the Mainland China retail business declined by 16.5% to HK$12.1 million (2016: HK$14.5 million), as the management sought to further downsize operations with the closure of underperforming shops. As a result of such efforts, which resulted in a more optimised operation, segment loss has further narrowed to HK$2.2 million versus a loss of HK$3.8 million in the preceding year. The Group has not, however, halted shop openings altogether, unveiling a new shop in the Guangzhou IFC shopping centre in January 2017. As at 31 December 2017, the Group has a total of 15 retail shops in Mainland China, all of which are located in Guangzhou.

Wholesale

Revenue from the wholesale operation amounted to HK$213.6 million (2016: HK$196.8 million), representing a year-on-year increase of 8.6%. Profit also climbed to HK$6.5 million versus a loss of HK$19.9 million last year. The turnaround was mainly attributable to less sales discounts/rebates and listing fees (上架費) being paid to third-party retailers, as well as more efficient investments in advertising and promotion made by the Group. As for the Hong Kong wholesale business, the rise in profit was partly due to its ability to benefit from the decrease in the average exchange rate of the Renminbi to Hong Kong Dollar in 2017, as compared to that in 2016 .

Hong Kong

The Hong Kong wholesale business generated revenue of HK$132.4 million (2016: HK$125.4 million) during the financial year, representing a year-on-year rise of approximately 5.6%. The increase was achieved largely as the result of the Group's ability to keep a tight rein on sales incentives and pay less listing fees to third-party retailers. Also, the Group benefited from the better performance of a key distributor. By capturing 37.3% of the Wellness Drink market based on sales value in 2017, according to Nielsen, the Group has retained its top position in the Hong Kong Wellness Drink Category for the 15th consecutive year.

Among the promotions introduced during the financial year include "Hung Fook Tong x LINE FRIENDS" special packaging used for selected drinks, which was well received by consumers. The Group also released a re-packaged Sugarcane Juice Drink (甘蔗汁), and engaged a local celebrity Mr Bob Cheung (張彥博) to star in a series of dedicated campaigns to raise awareness of the beverage. As for new product launches, the Group brought to market the Sparkling Salted Mandarin Drink (有氣咸柑桔) and fresh drinks such as Strawberry and Blueberry with Fermented Milk Drink (士多啤梨藍莓乳酪).

To further drive growth, the Group secured more retail outlets for its bottled drink products in Hong Kong, including Chinese hotpot restaurants and takeaway food vendors. The Group also continued to expand its footprint overseas. In Taiwan for example, the Group was able to tap FamilyMart (全家便利商店), one of the largest convenience store operators on the island with over 3,000 outlets, to distribute its Iced Lemon Tea Drink (凍檸茶) and Common Selfheal Fruit-spike Drink (夏枯草飲品), resulting in satisfactory contributions.

Mainland China

In respect of the Mainland China wholesale operation, revenue rose notably by 13.8% to HK$81.2 million (2016: HK$71.3 million). This was the result of less discounts and rebates being granted to certain accounts when compared with 2016; greater contributions from a key customer in Beijing; and stable contributions from Southern China where the Group was able to better penetrate second-tier cities in the Guangdong province.

As at 31 December 2017, the Group's extensive distribution network covers 18 provinces and 53 cities, among which Guangzhou remains the largest revenue contributor. The Group also has a total of 73 distributors, having secured three more key accounts in Shanghai and Chengdu which amounted to 20 key accounts in total in Mainland China. On the online front, the Group was able to further capitalise on its ties with online retailers such as Yihaodian (1號店), Jingdong (JD.com, 京東) and sfbest.com (順豐優選).

Production Facilities

Construction of a new production plant located in Kaiping City, Guangdong Province is expected to be completed by the end of 2018 or early 2019, to be followed by trial production. The new plant will not only play an important role in supporting the increasing demand for the Group's bottled drink products by providing additional capacity, but also facilitate cost-effective production owing to its high level of automation, thus translating into lower production cost in the long term.

In relation to the construction of the new plant, approximately HK$30.6 million of capital commitment was made and will incur in 2018 or later. As the trial production commences, related expenditures will also be spent.

PROSPECTS

The Hong Kong and Mainland China retail markets are expected to continue recovering in the near future, with HKRMA predicting an increase of 3-4% in retail sales value in Hong Kong for 2018. Nonetheless, the management will take a cautious approach towards maintaining the Group's leadership in the Hong Kong retail market, while at the same time evaluate its development in Mainland China. The Group is fully aware of the importance of controlling costs, hence will direct efforts towards managing various expenditures, in particular, rent and staff costs that will continue to rise and impact on profitability. Such endeavours will not, however, be at the expense of business development efforts as the management is fully committed to expediting delivery of omnichannel experiences to customers by optimising Hung Fook Tong Online, as well as by allocating resources to mobile application and digital membership card development.

Retail

Hong Kong

Consistent with the Group's strategy for developing the Hong Kong retail business in a prudent manner, it aims to open five to six new shops in 2018. Three shops have already been opened since the beginning of 2018, located in the Hong Kong University Station and Kennedy Town Station on the extended MTR Island Line to Western District, and in Lok Fu Place, Kowloon respectively. Another shop location along the same MTR line and one more location at a shopping mall have been secured and are scheduled to open in the second quarter of 2018. Among the new shops include one to two shops that abide by the Group's new brand concept, which will offer larger spaces where customers can fully enjoy its made-to-order products with many green and healthy options.

To drive same-store sales growth, the Group will continue to direct efforts and resources towards enriching its product portfolio. In particular, energies will be placed on developing products with re-energising properties, such as the Group's chicken essence products that are suitable not only for those recovering from illness, but also individuals seeking to build up their immune system. A key area of attention will be the Joyous Series, which will introduce more new products that are ideal for postnatal (坐月) mothers. Complementing these products will be associated training for frontline staff, so that they can offer professional well-informed advice to such mothers.

Furthermore, the Group will strengthen engagement with customers so as to best address their needs. Besides reaching customers via its mobile application, the Group will be placing eight to ten Smart Vendors named "HUNG+" at commercial buildings and various shopping malls. The machines will serve as additional sales points complementary to its retail shops, and will possess artificial intelligence (AI) to perform simple diagnostics, make health recommendations for customers, and suggest products that are most appropriate for their needs. These machines thereby enable the Group to enhance its exposure beyond shops and provide 24/7 personalised service.

Mainland China

Given the complex and rapidly evolving nature of the Mainland China retail landscape, the Group will continue to closely monitor the performance of its operations in the country, and will further refine its shop network when deemed necessary to continue enhancing segment performance.

Wholesale

Hong Kong

As the leader of the Hong Kong Wellness Drink market for well over a decade, the Group is committed to maintaining its leadership through product innovation and enhanced exposure. In respect of the former, the Group will introduce more products under the "Sparkling Herbal Series" (有氣草本系列), such as the recent introduction of the Sparkling Salted Mandarin Drink (有氣咸柑桔). As for enhancing exposure, it will seek more collaboration opportunities with popular characters similar to the Group's link-up with LINE FRIENDS. Meanwhile, in order to directly extend its reach to consumers, the Group will explore more potential partnerships with food and beverage peers, including restaurants and bakery shops.

Besides the traditional markets, the Group will continue to explore new geographical locations to promote its products. Having established a footing in Taiwan, the Group will seek to strengthen its presence by entering more supermarkets and convenience stores. Other markets that the management will look at include Vietnam and as far afield as the United Kingdom. And in light of the One Belt, One Road initiative proposed by the Chinese government, the Group will also investigate opportunities for entering countries that will benefit from the economic co-operation plan.

Mainland China

While average selling prices of beverages are likely to go up, the Group remains cautious about the fast-changing Mainland China beverage market that is expected to remain competitive in 2018. To tackle the challenges ahead, the Group will introduce products that capitalise on recent trends, such as the popularity of plant-derived beverages. The management will also continue to leverage the Group's competitive edges, including high-quality products and "Hong Kong Brand" appeal to further enhance its market standing.

In respect of driving sales in Mainland China, the Group will launch 1.5 litre-size drinks in southern parts of the country to increase penetration. Conversely, for Northern China, smaller size products from the "Hong Kong Dessert Series" (港式甜品系列) will be introduced to encourage sampling by the public. As for Eastern China, the Group will place efforts on penetrating local supermarkets and hypermarkets with discounted bulk packs. And not ignoring online opportunities, the Group will also strengthen promotions in this electronic realm via associated retailers.

CONCLUSION

As a market leader with a solid business foundation and strong brand image, the Group is committed to protecting and building on its legacy through careful observation backed by innovation. Correspondingly, it will seek to introduce more innovative products that align with the desires of its customers, including their pursuit of a healthy lifestyle. Through these and other efforts, the Group will strive to extend its lead in the Hong Kong market, while bolstering its presence in Mainland China, with an aim to enhance sales performance and profitability.

FINANCIAL OVERVIEW

Revenue

For the year ended 31 December 2017, the Group's revenue amounted to HK$741.9 million, representing an increase of 3.7% from HK$715.2 million in 2016. As Hong Kong and Mainland China retail markets experienced a modest recovery, revenue from Hong Kong retail operation has increased to HK$516.1 million, representing an increase of 2.4% from HK$504.0 million in 2016 as a result of opening new shops and participation in the Food Truck Pilot Scheme to expand customer base. Revenue from wholesales business has also increased to HK$213.6 million, representing an increase of 8.6% in 2017 from HK$196.8 million in 2016 mainly due to less sales discounts/rebates and listing fees paid to third party retailers.

Cost of Sales

For the year ended 31 December 2017, the Group's cost of sales amounted to HK$278.9 million, representing an increase of 1.7% from HK$274.3 million in 2016. As a percentage of revenue, cost of sales was 37.6% in 2017 (2016: 38.3%).

Gross Profit and Gross Profit Margin

For the year ended 31 December 2017, the Group's gross profit amounted to HK$463.0 million, representing an increase of 5.0% from HK$440.9 million in 2016. The Group's gross profit margin for 2017 increased by 0.7 percentage point to 62.4% as compared to 61.7% in 2016. Despite the continued increase in raw material costs, the Group's gross profit margin hovered at a level similar to last year due primarily to the enhancement of procurement procedures and the successful implementation of cost control measures.

Other (Losses)/Gains, Net

For the year ended 31 December 2017, other (losses)/gains, net amounted to a net loss of HK$0.1 million as compared to a net gain of HK$7.9 million in 2016. This was largely due to the recognition of a gain on disposal of an investment property of HK$8.2 million in 2016.

Staff Costs

For the year ended 31 December 2017, the Group's staff costs amounted to HK$236.1 million, representing an increase of 6.5% from HK$221.8 million in 2016. The staff costs-to-revenue ratio was 31.8% as compared to 31.0% in 2016.

Rental Expenses

For the year ended 31 December 2017, the Group's rental expenses in relation to its retail shops amounted to HK$107.3 million, representing an increase of 8.3% from HK$99.1 million in 2016. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-retail revenue ratio (including shops in Hong Kong and Mainland China) was 20.3% on compared to 19.1% in 2016.

Advertising and Promotion Expenses

For the year ended 31 December 2017, the Group's advertising and promotion expenses amounted to HK$28.8 million, representing a decrease of 13.9% from HK$33.5 million in 2016. This accounted for 3.9% and 4.7%, respectively, as percentage to revenue in 2017 and 2016. More marketing expenses had been incurred for the Group's 30th anniversary celebration in 2016.

Depreciation and Amortisation

For the year ended 31 December 2017, the depreciation and amortisation of the Group amounted to HK$30.9 million, representing a decrease of 8.7% from HK$33.8 million in 2016. This accounted for 4.2% and 4.7%, respectively, as percentage to revenue in 2017 and 2016.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2017 was HK$8.1 million, representing a decrease of 9.5% from HK$9.0 million in 2016. The non-recurrence of the one-off gain on disposal of an investment property of HK$8.2 million recognised in 2016 was mostly made up by an improvement in the operating results, especially in the wholesale business. The net profit margin (calculated as profit for the year as a ratio of revenue) for the year ended 31 December 2017 was 1.1%, as compared to 1.2% in 2016.

Basic earnings per share for the year amounted to HK1.24 cents, as compared to HK1.37 cents in 2016.

Capital Expenditure

During the year ended 31 December 2017, capital expenditure amounted to HK$47.3 million. This amount was used mainly for the opening of new shops, the revamping of existing retail shops and the production facilities in Mainland China and Tai Po plants, as well as the acquisition of land and construction for the new production plant in Kaiping City, Mainland China.

Liquidity and Financial Resources Review

Our Group is financially sound with bank deposits and cash amounting to HK$114.7 million as at 31 December 2017 (31 December 2016: HK$132.2 million).

As at 31 December 2017, the gearing ratio of the Group was 0.20 (31 December 2016: 0.26), which was calculated based on total debt divided by total equity attributable to owners of the Company.

As at 31 December 2017, the Group has total banking facilities of HK$122.1 million (31 December 2016: HK$172.4 million) of which HK$54.1 million (31 December 2016: HK$69.2 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 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

Except for the acquisition of land and the construction of a new plant in Kaiping City, Guangdong Province, there were no other material acquisitions, disposals and significant investments in our Group during the year ended 31 December 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 of 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, 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 2017, the Group employed approximately 1,366 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on years of service and performance appraisal.

During the year ended 31 December 2017, 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 2017 of HK0.37 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 HK0.31 cent per ordinary share. The proposed final and special dividends, amounted to a total of HK$4,460,000 with dividend payout ratio of 0.55, 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 2018.

Subject to the approval of the shareholders at the forthcoming AGM, the final dividend and the special dividend will be payable on or about Friday, 13 July 2018 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Friday, 22 June 2018.

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM to be held on Friday, 8 June 2018, the register of members of the Company will be closed from Monday, 4 June 2018 to Friday, 8 June 2018, 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 1 June 2018.

For determining the entitlement to the proposed final dividend and the special dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 15 June 2018 to Friday, 22 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and the special 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 14 June 2018.

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 2017.

Model Code for Securities Transactions

The Company has adopted a code of conduct (the "**Code of Conduct**") based on the required standards 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 2017, 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 2017.

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 2017 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 2017 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 2017 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, 27 March 2018

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.