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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

- Revenue for the six months ended 30 June 2018 ("**1H2018**") increased by 10.1% when compared with the six months ended 30 June 2017 ("**1H2017**"), from HK$355.8 million to HK$391.9 million.

  – Revenue from retail business amounted to HK$286.9 million, increased by 10.0% compared with 1H2017 and accounting for 73.2% of the Group's total revenue, with a retail network comprising 130 retail shops in Hong Kong and Mainland China as at 30 June 2018.

  – Revenue from wholesale business amounted to HK$105.0 million, an increase of 10.6% from HK$95.0 million recorded in 1H2017, with a distribution network now covering 53 cities in 18 provinces, and the number of distributors in Mainland China has reached 82 as at 30 June 2018.

- Gross profit for 1H2018 increased to HK$237.6 million (1H2017: HK$223.0 million), and gross profit margin for 1H2018 decreased by 2.1 percentage points to 60.6% (1H2017: 62.7%).

- Profit attributable to owners of the Company for 1H2018 was HK$4.2 million (1H2017: HK$3.0 million).

- Basic earnings per share for 1H2018 was HK0.65 cent (1H2017: HK0.46 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 2018 together with comparative figures for the corresponding period in 2017.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited) Six months ended 30 June	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	*3,4*	**391,888**	355,815
Cost of sales	*5*	**(154,244)**	(132,863)
Gross profit		**237,644**	222,952
Other income	*4*	**501**	773
Other losses, net	*4*	**(607)**	(18)
Selling and distribution costs	*5*	**(41,077)**	(35,255)
Administrative and operating expenses	*5*	**(192,892)**	(184,729)
Operating profit		**3,569**	3,723
Finance income		**54**	68
Finance costs		**(735)**	(815)
Finance costs, net		**(681)**	(747)
Profit before income tax		**2,888**	2,976
Income tax expense	*6*	**(149)**	(196)
Profit for the period		**2,739**	2,780
Profit attributable to:			
Owners of the Company		**4,248**	3,040
Non-controlling interests		**(1,509)**	(260)
		2,739	2,780
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (HK cent per share)	*7*	**0.65**	0.46

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	(Unaudited) Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Other comprehensive (loss)/income:		
Item that may be reclassified to profit or loss		
– Currency translation differences	**(1,379)**	508
Other comprehensive (loss)/income, net of tax	**(1,379)**	508
Total comprehensive income for the period	**1,360**	3,288
Total comprehensive income/(loss) attributable to:		
Owners of the Company	**2,885**	3,502
Non-controlling interests	**(1,525)**	(214)
	1,360	3,288

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2018** *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Leasehold land and land use rights	*9*	**56,925**	58,054
Property, plant and equipment	*10*	**254,565**	236,843
Prepayments and deposits		**33,896**	28,273
Deferred income tax assets		**8,753**	8,753
		354,139	331,923
Current assets			
Inventories		**33,459**	29,899
Trade receivables	*11*	**45,362**	54,935
Prepayments, deposits and other receivables		**37,096**	30,603
Amount due from a related company		**690**	690
Tax recoverable		**986**	986
Pledged bank deposits		**–**	1,070
Bank deposits with original maturity over 3 months		**1,515**	–
Cash and cash equivalents		**129,646**	113,588
		248,754	231,771
Total assets		**602,893**	563,694
EQUITY			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Share premium		**214,999**	214,999
Reserves		**55,805**	44,655
		277,363	266,213
Non-controlling interests		**(487)**	1,038
Total equity		**276,876**	267,251

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	**As at 30 June 2018** *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		**4,625**	4,994
Deferred income tax liabilities		**441**	441
Bank borrowings		**57,623**	31,659
		62,689	37,094
Current liabilities			
Trade payables	*12*	**38,543**	28,378
Accruals and other payables		**54,970**	59,640
Provision for reinstatement costs		**2,172**	1,529
Receipts in advance		**137,453**	146,663
Bank borrowings		**27,482**	20,783
Taxation payable		**2,708**	2,356
		263,328	259,349
Total liabilities		**326,017**	296,443
Total equity and liabilities		**602,893**	563,694
Net current liabilities		**(14,574)**	(27,578)
Total assets less current liabilities		**339,565**	304,345

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 other parts of the People's Republic of China ("**PRC**" for the purpose of this condensed consolidated interim financial information) (the "**Business**").

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 2018 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The Group's current liabilities exceeded its current assets by HK$14,574,000 as at 30 June 2018 (31 December 2017: HK$27,578,000). 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$137,453,000 (31 December 2017: HK$146,663,000) included in current liabilities, the Group would have net current assets of HK$122,879,000 as at 30 June 2018 (31 December 2017: HK$119,085,000). 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, this condensed consolidated interim 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 2017, 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

A number of new or amended standards became applicable for the current interim period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 2.3 below.

The following amendments to existing standards are effective to the Group for accounting periods beginning on or after 1 January 2018 but did not result in any significant impact on the results and financial position of the Group. No retrospective adjustments are required.

Amendments to HKAS 28	Investments in associates and joint ventures
Amendments to HKAS 40	Transfers of investment property
Amendments to HKFRS 1	First time adoption of HKFRS
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration
Annual Improvement Project	Annual Improvements 2014-2016 Cycle

(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 2018 and have not been early adopted:

		Effective for annual periods beginning on or after
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 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKFRS 11	Joint Arrangements	1 January 2019
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
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

HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting treatment for lessors will not change significantly.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (Continued)

(b) New and amended standards not yet adopted (Continued)

HKFRS 16 "Leases" (Continued)

The standard will affect primarily the accounting for the Group's operating leases. As at the announcement date, the Group has non-cancellable operating lease commitments of HK$171,717,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim period within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

2.3 Changes in accounting policies

The following explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's condensed consolidated interim financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on condensed consolidated interim financial information

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening of the condensed consolidated interim statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	Audited	**Unaudited**		
	31 December 2017 As originally presented	**HKFRS 9**	**HKFRS 15**	**1 January 2018 Restated**
Statement of financial position (extract)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current assets				
Trade receivables	54,935	(578)	–	54,357
Total assets	563,694	(578)	–	563,116
Current liabilities				
Receipts in advance	(146,663)	–	8,843	(137,820)
Total liabilities	(296,443)	–	8,843	(287,600)
Equity				
Reserves	(44,655)	578	(8,843)	(52,920)
Total equity	(267,251)	578	(8,843)	(275,516)

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies (Continued)

(b) HKFRS 9 "Financial Instruments" – Impact on adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in Note 2.3(c) below.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Note	**Unaudited** *HK$'000*
Closing retained earnings as at 31 December 2017 – HKAS 39/HKAS 18		27,959
Increase in provision for impairment on trade receivables	*(ii)*	(578)
Opening retained earnings as at 1 January 2018 – HKFRS 9 (before restatement for HKFRS 15)		27,381

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. All classes of financial assets and financial liabilities had the same carrying amounts in accordance with HKAS 39 and HKFRS 9 on 1 January 2018, and there is no change in the measurement categories of each material class of financial assets and liabilities.

(ii) Impairment of financial assets

The Group's significant financial assets which are subject to the new expected credit loss model include trade and other receivables. The Group was required to revise its impairment methodology under HKFRS 9 for these classes of financial assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 2.3(a) above.

While cash and cash equivalents and bank deposits with original maturities over 3 months are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For other receivables, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is close to zero.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies (Continued)

(b) HKFRS 9 "Financial Instruments" – Impact on adoption (Continued)

(ii) Impairment of financial assets (Continued)

On that basis, the loss allowance of trade receivables as at 1 January 2018 was determined according to provision matrix where trade receivables are provided for at expected loss rates of 0% to 8%.

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Unaudited *HK$'000*
Closing loss allowance as at 31 December 2017	
– calculated under HKAS 39	2,413
Amounts restated through opening retained earnings	578
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	2,991

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

(c) HKFRS 9 "Financial Instruments" – Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("FVOCI"), or through profit or loss ("FVTPL")); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies (Continued)

(c) HKFRS 9 "Financial Instruments" – Accounting policies applied from 1 January 2018 (Continued)

(ii) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies all its debt instruments as amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other losses, net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the condensed consolidated interim statement of comprehensive income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in the profit or loss, there is no subsequent reclassification of fair value gains and losses to other comprehensive income following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in "other losses, net" in the condensed consolidated interim statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured in FVOCI are not reported separately from other changes in fair value.

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies (Continued)

(d) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated interim financial information. As such, comparatives for the 2017 financial year would not be restated but contracts which have remaining obligations as of the effective date will enter an adjustment to the opening balance of the retained earnings as at 1 January 2018.

	Audited HKAS 18 carrying amount 31 December 2017	**Remeasurement**	**Unaudited HKFRS 15 carrying amount 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Receipts in advance	146,663	(8,843)	137,820

(i) Accounting for pre-paid coupons and credits

Previously, any residual receipts in advance from the sales of pre-paid coupons and credits is fully recognised in condensed consolidated interim statement of comprehensive income upon expiry.

Under HKFRS 15, such non-redeemed pre-paid coupons and credits are referred to as breakage. An expected breakage amount in receipts in advance is determined by historical experience and is recognised as revenue in proportion to the pattern of redemption by the customers.

(ii) Accounting for customer loyalty programme

Deferred revenue represents outstanding customer loyalty credits, which are accounted for as a separate component of the sales transaction in which they are granted.

Under HKFRS 15, deferred revenue is recognised as a contract liability, which is included in "accruals and other payables", and revenue is recognised when the rewards are redeemed or expired.

The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Unaudited
	HK$'000
Retained earnings – after HKFRS 9 restatement	27,381
Recognition of revenue for pre-paid coupons	8,843
Opening retained earnings as at 1 January 2018 – HKFRS 9 and HKFRS 15	36,224

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies (Continued)

(e) HKFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

(i) Sales of goods – retail

The Group operates a chain of retail stores in Hong Kong and the PRC selling bottled drinks and other herbal products, soups and snacks. Revenue from the sale of goods is recognised when the Group sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the products. As part of the Group's ordinary activities, pre-paid coupons and credits are issued and sold to customers, and the receipts in respect of which are deferred and recognised as 'receipts in advance' on the condensed consolidated interim statement of financial position. Any non-redeemed pre-paid coupons and credits are referred to as breakage. An expected breakage amount in receipts in advance is determined by historical experience and is recognised as revenue in proportion to the pattern of redemption by the customers.

(ii) Sales of goods – wholesale

The Group is engaged in the wholesale and distribution of bottled drinks in Hong Kong and the PRC. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

The Group has various sales rebates and discounts programmes with third party customers and wholesalers in Hong Kong and the PRC. Sales rebates and discounts are estimated and reassessed at each balance sheet date with reference to the latest available sales contracts and previous constructive obligation established with the customers. Sales rebates and discounts granted to customers are deducted from gross sales in arriving at revenue.

(iii) Sales of goods – customer loyalty programme

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial sale.

A contract liability is recognised until the points are redeemed or expire, which is included in "accruals and other payables" on the condensed consolidated interim statement of 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 rights, inventories, trade receivables, prepayments, deposits and other receivables, bank deposits with original maturity over 3 months 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 2018 and 2017.

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 2018 and 2017 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2018 and 2017 are as follows:

	(Unaudited) Six months ended 30 June 2018			
	Hong Kong retail *HK$'000*	**PRC retail** *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**282,313**	**4,540**	**106,335**	**393,188**
Less: Inter-segment revenue	**(2)**	**–**	**(1,298)**	**(1,300)**
Revenue from external customers	**282,311**	**4,540**	**105,037**	**391,888**
Segment results	**36,838**	**(2,071)**	**(2,095)**	**32,672**
Corporate expenses				**(29,103)**
Finance costs, net				**(681)**
Profit before income tax				**2,888**
Income tax expense				**(149)**
Profit for the period				**2,739**
Other segment items:				
Capital expenditure	**8,369**	**20**	**24,641**	**33,030**
Depreciation and amortisation	**10,515**	**314**	**4,369**	**15,198**
Interest income	**19**	**1**	**34**	**54**
Impairment losses on property, plant and equipment	**–**	**124**	**–**	**124**
Provision/(reversal of provision) for impairment on trade receivables	**35**	**–**	**(209)**	**(174)**

3 REVENUE AND SEGMENT INFORMATION (CONTINUED)

	(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	44	68
Provision for impairment on trade receivables	74	–	–	74

The segment assets as at 30 June 2018 and 31 December 2017 are as follows:

	Hong Kong retail *HK$'000*	**PRC retail** *HK$'000*	**Wholesale** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
As at 30 June 2018 (Unaudited)					
Segment assets	**338,036**	**6,030**	**227,325**	**(4,307)**	**567,084**
Amount due from a related company					**690**
Tax recoverable					**986**
Deferred income tax assets					**8,753**
Corporate assets					**25,380**
Total assets					**602,893**
As at 31 December 2017 (Audited)					
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

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 ended 30 June 2018 and 2017 are as follows:

	(Unaudited) Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**389,494**	353,491
Revenue recognised upon expiry of pre-paid credits	**2,394**	2,324
	391,888	355,815
Other income		
Insurance claim	**161**	408
Others	**340**	365
	501	773
Other losses, net		
Exchange difference	**(429)**	108
Losses on disposal of property, plant and equipment	**(178)**	(126)
	(607)	(18)

5 EXPENSE BY NATURE

	(Unaudited) Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold	**116,768**	96,601
Operating lease rental in respect of retail outlets		
– Minimum rental	**54,482**	52,281
– Contingent rental	**65**	167
Operating lease rental in respect of storage spaces and office premises	**10,212**	10,017
Advertising and promotional expenditure	**14,211**	13,180
Amortisation of leasehold land and land use rights *(Note 9)*	**800**	715
Depreciation of property, plant and equipment *(Note 10)*	**14,398**	15,210
Communication and utilities	**16,508**	16,321
Employee benefit expenses (including directors' emoluments)	**122,559**	115,308
(Reversal of provision)/provision for impairment on trade receivables	**(174)**	74
Impairment losses on property, plant and equipment	**124**	–
Legal and professional fees	**4,248**	2,394
Tools, repair and maintenance expenses	**5,323**	4,790
Transportation and distribution expenses	**17,983**	15,959
Others	**10,706**	9,830
Total cost of sales, selling and distribution costs and administrative and operating expenses	**388,213**	352,847

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 (for six months ended 30 June 2017: 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	
	2018	2017
	HK$'000	*HK$'000*
Current income tax		
– PRC CIT on profit for the period	**30**	68
– Under-provision in prior years	**119**	128
Income tax expense	**149**	196

7 EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June	
	2018	2017
Profit attributable to owners of the Company (HK$'000)	**4,248**	3,040
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)	**0.65**	0.46
– Diluted earnings per share (HK cent)	**0.65**	0.46

(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 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

There were no outstanding share options as at 30 June 2018.

8 DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

9 LEASEHOLD LAND AND LAND USE RIGHTS

	(Unaudited) Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
At 1 January	**58,054**	48,387
Amortisation *(Note 5)*	**(800)**	(715)
Exchange difference	**(329)**	165
At 30 June	**56,925**	47,837

Amortisation of leasehold land and land use rights of HK$800,000 (30 June 2017: HK$715,000) has been charged in 'administrative and operating expenses' for the six months ended 30 June 2018.

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Leasehold land and land use rights located in:		
– Hong Kong	**29,407**	29,919
– PRC	**27,518**	28,135
	56,925	58,054

The useful lives of the leasehold land and land use rights are both 50 years.

10 PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
At 1 January	**236,843**	226,990
Additions	**33,030**	11,513
Disposals	**(304)**	(126)
Depreciation *(Note 5)*	**(14,398)**	(15,210)
Impairment losses *(Note 5)*	**(124)**	–
Exchange difference	**(482)**	252
At 30 June	**254,565**	223,419

Depreciation of HK$5,235,000 (30 June 2017: HK$4,543,000) has been charged in 'cost of sales', HK$9,159,000 (30 June 2017: HK$10,602,000) in 'administrative and operating expenses' and HK$4,000 (30 June 2017: HK$65,000) in 'selling and distribution costs' for the six months ended 30 June 2018.

11 TRADE RECEIVABLES

	As at 30 June 2018 *HK$'000* (Unaudited)	As at 31 December 2017 *HK$'000* (Audited)
Trade receivables	**48,159**	57,348
Less: Provision for impairment on trade receivables	**(2,797)**	(2,413)
	45,362	54,935

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 30 June 2018 and 31 December 2017, the ageing analysis of the trade receivables, based on invoice date, are as follows:

	As at 30 June 2018 *HK$'000* (Unaudited)	As at 31 December 2017 *HK$'000* (Audited)
0 – 30 days	**20,995**	23,320
31 – 90 days	**22,001**	26,459
Over 90 days	**2,366**	5,156
	45,362	54,935

12 TRADE PAYABLES

As at 30 June 2018 and 31 December 2017, the ageing analysis of the trade payables, based on invoice date, are as follows:

	As at 30 June 2018 *HK$'000* (Unaudited)	As at 31 December 2017 *HK$'000* (Audited)
0 – 30 days	**21,967**	14,688
31 – 60 days	**11,923**	11,150
61 – 90 days	**2,806**	2,457
Over 90 days	**1,847**	83
	38,543	28,378

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2018 ("1H2018"), the Hong Kong and Mainland China retail markets continued to recover. With regard to Hong Kong, total retail sales value increased by 13.4% year-on-year in the first six months of 2018, supported by solid local consumption. In respect of Mainland China, during 1H2018, real national per capita consumption expenditure grew by 6.7%, while the total retail sales of consumer goods expanded by 9.4% year-on-year to RMB18 trillion, driven by consumption upgrade.

The Group has been able to report a satisfactory increase in revenue of 10.1% year-on-year to HK$391.9 million (for the six months ended 30 June 2017 ("1H2017"): HK$355.8 million), owing to strong brand recognition among Hong Kong consumers on the retail front, and increased contributions from the wholesale business on both sides of the border. Gross profit rose by 6.6% to HK$237.6 million (1H2017: HK$223.0 million) on the back of strong performance by the Hong Kong retail operation. Gross profit margin was down, however, declining by 2.1 percentage points to 60.6% (1H2017: 62.7%), due to the increase in raw material and packaging material costs, rise in factory wages, appreciation of the Renminbi ("RMB") when compared with 1H2017, and deeper rebates offered to customers of its wholesale business. Despite the rise in shop rent and wages, and fixed costs associated with the Group's Dongguan Plant[1] that has ceased production since 2018, the Group still managed to record an increase in net profit attributable to owners of the Company to HK$4.2 million (1H2017: HK$3.0 million).

The Group remains in a healthy financial position with HK$129.6 million in cash and cash equivalents (31 December 2017: HK$113.6 million), and continues to enjoy strong cash flows with healthy net cash generated from operating activities.

BUSINESS SEGMENT ANALYSIS

Retail

The retail segment recorded revenue of HK$286.9 million (1H2017: HK$260.8 million) in 1H2018, representing a year-on-year increase of 10.0%. Segment profit amounted to HK$34.8 million (1H2017: HK$26.2 million), or a year-on-year rise of 32.8% owing to the strong performance of the Hong Kong operation.

Hong Kong

The Hong Kong retail business continued to constitute the largest revenue contributor of the Group, which, for the review period generated HK$282.3 million in segment revenue, up 10.8% from HK$254.8 million in 1H2017, and accounted for 72.0% of total revenue. The rise in revenue can be attributed to satisfactory same-store sales growth, which was driven by encouraging demand for new products such as Organic Chicken Essence (有機滴雞精), an increase in the price of certain products in 2017 and improved incentive programmes. Moreover, closure of underperforming shops with satisfactory contributions from new shops, and strong business growth from corporate customers and exhibitions further contributed to top-line growth. During 1H2018, a segment profit of HK$36.8 million has been recorded, up 34.0% from HK$27.5 million for the corresponding period last year – the result of higher gross profit and effective control of operating costs.

[1] Dongguan Plant refers to one of the Group's own production facilities that is located in Dongguan, Guangdong Province in China. It had produced a majority of the PET bottles used by the Group for its long shelf-life bottled drink products.

The Group has continued to deliver omnichannel experiences to customers, which in the case of brick-and-mortar stores has included the addition of six new shops during 1H2018, located mainly along the extended MTR Island Line, including Hong Kong University Station, Kennedy Town Station, Sai Ying Pun Station, and Shek Mun Station, as well as Lok Fu Place and Mikiki shopping centre. The Group therefore remains the largest herbal retailer in Hong Kong based on retail network size, totalling 116 self-operated shops as at 30 June 2018.

On the e-commerce front, Hung Fook Tong Online ("HFT Online") has been able to sustain membership growth while at the same time uphold high standards of quality in respect of customer services. This has been substantiated by the Hong Kong Retail Management Association ("HKRMA"), which recognised HFT Online as a "Quality E-Shop" in 2018 – the second consecutive year that the platform has been so honoured.

The Group's mobile application has also realised progress. Having launched the digital membership card in 2017 and enabled membership registration via the application during 1H2018, operational efficiency has been enhanced and associated costs are expected to be reduced over the long run. Also, as a result of the aforementioned efforts, the Group's customer base has further expanded, with JIKA CLUB membership now totalling over 780,000 as at 30 June 2018, representing a significant increase of 49,000 members during 1H2018.

Still other means of earning the patronage of the public include the recent introduction of Smart Vendors, known as "HUNG+ (鴻家)". As at 30 June 2018, there were six machines in operation, located in commercial buildings and shopping malls, such as Lok Fu Place. The machines enable the Group to enhance its exposure beyond shops and provide customers with 24/7 personalised service.

Mainland China

The management has continued to consolidate the Group's retail network in Mainland China during 1H2018 by closing underperforming shops. As a consequence, revenue for 1H2018 declined to HK$4.5 million (1H2017: HK$6.0 million). The Group operated a total of 14 retail shops in Guangzhou as at 30 June 2018, which is three less than as of 30 June 2017. Segment loss amounted to HK$2.1 million (1H2017: loss of HK$1.3 million) due to expenses relating to shop closure and the increase in the average exchange rate of the RMB to the HK$ during 1H2018.

Wholesale

The wholesale operation generated HK$105.0 million (1H2017: HK$95.0 million) in revenue during 1H2018, increased by 10.6%. The increase can be attributed to the launch of new products in Hong Kong and Mainland China, as well as closer cooperation with key accounts and distributors in Mainland China. However, the operation experienced a segment loss of HK$2.1 million (1H2017: profit of HK$3.3 million), mainly due to the greater cost of packaging materials incurred from purchasing PET bottles, higher staff costs, appreciation of the RMB which impacted on the results of the Hong Kong wholesale segment, increased advertising and promotion expenses and fixed costs associated with the Dongguan Plant.

Hong Kong

The Hong Kong wholesale business was able to increase revenue by 7.7% year-on-year to HK$62.4 million (1H2017: HK$57.9 million), largely due to the introduction of several new products such as Sparkling Salted Mandarin Drink (咸柑桔氣泡飲), Passion Fruit with Honey Drink (百香果蜜) and Mango Juice Drink (芒果汁), which boosted sales from supermarkets and grocery stores. Other contributing factors included expanded sales channels, as the Group tapped more food and beverage operators such as Chinese restaurant chains and a Japanese buffet restaurant group, and greater brand exposure via product placement in the TVB programme "Cooking Beauties (美女廚房)".

In Taiwan, the Group also benefited from ties with FamilyMart, one of the largest convenience store operators on the island, which experienced highly positive demand for the Group's Common Selfheal Fruit-spike Drink (夏枯草飲品) and Ice Lemon Tea Drink (凍檸茶).

Mainland China

Revenue from the Mainland China wholesale operation totalled HK$42.7 million in 1H2018 (1H2017: HK$37.1 million), up a notable 15.1% year-on-year. The upsurge was the result of closer ties with key account customers in Southern China and Western China, combined with the launch of new products such as Passion Fruit with Honey Drink and Fresh Herbal Tea (鮮製涼茶). In Northern China, stable sales from a major convenience store in Beijing since the second half of 2017, as well as the launch of the new fresh drink Mango Pulp with Pomelo Drink (楊枝金撈) in 250ml size also contributed to top-line growth. The wholesale operation further benefited from significant sales growth via the online retailer JD.com, as the Group offered more customised promotions to the platform's customers.

As at 30 June 2018, the Group's extensive distribution network covered 18 provinces and 53 cities in Mainland China, among which Guangzhou remains the largest revenue contributor. The Group has also secured more distributors, which, as at 30 June 2018 amounted to 82 in total.

Production Facilities

Construction of the new production plant in Kaiping City, Guangdong Province has been progressing well and is expected to be completed by the end of 2018, following which trial production will commence in early 2019. The Kaiping plant will not only play a crucial role in supporting growing demand for the Group's bottled drinks by providing additional capacity, but will also enable the Group to benefit from cost-effective production as the facility is highly automated, which will lower production cost over the long term.

PROSPECTS

In view of uncertainties brought by the China-US trade war and valuation of the RMB, HKRMA has forecasted high single-digit to low double-digit growth in sales value for the whole year of 2018. Mindful of potential challenges emerging in the operating environment, the management will be cautiously steering the Group through possible headwinds, though it remains unperturbed given the numerous economic cycles that it has experienced over the past years. The management will continue with its objectives of strengthening the Group's leadership in the Hong Kong retail market while at the same time taking a prudent approach as it protects the Group's interests in Mainland China.

As the second half of the financial year approaches, the management also recognises that, besides the aforehead mentioned economic concerns, rising operating costs will pose a major challenge to the Group. Specifically, certain one-off expenses will be incurred from the relocation of the production facilities from Suzhou City, Jiangsu Province and Guanlan, Shenzhen to Kaiping City, Guangdong Province. Even though the management expects the Group's operating results will be significantly impacted in the second half of 2018 ("2H2018"), it trusts that the new Kaiping facilities will ultimately lower production costs, thus benefit the Group over the long term.

Retail

Hong Kong

Despite growing anxiety over economy, the management remains confident in the Group's ability to maintain its leadership in the Hong Kong retail market. Such confidence stems from strategies in place for bolstering its position, including the prudent expansion of the shop network which, in the second half year, will likely grow by three new shops. One shop has opened subsequent to the review period, i.e. August 2018, and two locations have been secured. These three shops are in shopping malls found on Hong Kong Island or in a hospital.

Along with strengthening its retail presence, the Group will also seek to drive same-store sales growth. Towards this objective, it recruited Ms. Jade Kwan (關心妍) in July 2018, a talented singer and young mother, who will be serving as brand ambassador of the Joyous Series (自家喜慶系列), which is one of the Group's key product lines. Also to generate greater sales, the Group has enhanced the formula for its Organic Chicken Essence. The product can now be stored at room temperature and the protein level has been increased, which is suitable not only for those who are pregnant or postnatal mothers, but also for individuals recovering from illness and seeking to strengthen their immune system, such as the elderly and children.

Helping customers enjoy the Group's products 24/7, the Group will launch more "HUNG+" Smart Vendors. More than ten additional machines will be rolled out in 2H2018; four machines having already been installed in July and August. As HUNG+ also possesses artificial intelligence, it is able to perform simple diagnostics, make health recommendations, and suggest products that are most appropriate for the user.

Mainland China

Given the complex and rapidly changing nature of the Mainland China retail market, the management will maintain its strategy of continuously reducing the shop network so as to minimise losses from the segment.

Wholesale

Hong Kong

To maintain the Group's leadership in the Hong Kong Wellness Drink market will call for greater product exposure; hence the management will seek to push sales of its Sparkling Salted Mandarin Drink across more of its wholesale channels. It will also launch more flavours of drinks in 250ml size in order to tap a larger number of food and beverage outlets, especially hotpot buffet and Japanese buffet restaurants.

With regard to overseas sales, the Group will further strengthen its presence in existing markets, especially Taiwan where it will launch new products including Salted Lime Drink (咸青檸) via FamilyMart stores in 2H2018. The management will also consider the feasibility of launching the Sparkling Drink Series in Taiwan and expanding the Group's products to other local supermarkets as well as via e-commerce platforms.

Mainland China

In view of the fast evolving and competitive nature of the Mainland China beverage landscape, where deep discounts are offered by various brands, and the entry of imported drinks at the high-end segment as well as more healthy and plant-based drinks in the market have intensified competition, the Group will continue to take a prudent approach towards market development while leveraging its competitive edges, including its commitment to high quality and "Hong Kong Brand" appeal, to enhance its market standing.

New products such as Sparkling Salted Mandarin Drink and Deluxe Coconut Durian Drink (榴槤椰香金露) will be introduced to expand the product portfolio. Given the growing health consciousness of the general public, the Group aims to introduce more low-sugar or no-sugar options. Still another means designed to boost sales particularly during the winter months will be the introduction of warm drinks in Northern China during 2H2018.

The management will also seek to secure more corporate customers for its healthy drinks as well as strengthen ties with schools to enhance sales.

With Mainland China being the largest e-retail market in the world, the Group will intensify its marketing efforts via online retailers such as launching more promotional offers during the "Double 11" and "Double 12" shopping festivals, so as to mitigate the impact of online sales on traditional sales channels.

CONCLUSION

As a market leader with a solid business foundation, strong brand equity and experienced management, the Group possesses the means and methods for overcoming challenges that may emerge. It will not grow complacent, however, and will continue to seek constant innovation, as well as strive to introduce more options to meet consumers' pursuit of a healthy lifestyle. The Group will also seek to bolster its presence in Hong Kong and Mainland China so as to create value for its stakeholders.

FINANCIAL REVIEW

Revenue

In 1H2018, the Group's revenue amounted to HK$391.9 million, representing an increase of 10.1% from HK$355.8 million in 1H2017. Revenue from Hong Kong retail operation has increased to HK$282.3 million, representing an increase of 10.8% from HK$254.8 million in 1H2017 as a result of satisfactory same-store sales growth partly resulting from the launch of certain popular new products. Revenue from wholesale business has also increased to HK$105.0 million, representing an increase of 10.6% from HK$95.0 million in 1H2017, mainly attributable to the launch of new products in Hong Kong and Mainland China, as well as closer cooperation with key accounts and distributors in Mainland China.

Cost of Sales

In 1H2018, the Group's cost of sales amounted to HK$154.2 million, representing an increase of 16.1% from HK$132.9 million in 1H2017. As a percentage of revenue, cost of sales represented 39.4% and 37.3% in 1H2018 and 1H2017 respectively.

Gross Profit and Gross Profit Margin

In 1H2018, the Group's gross profit amounted to HK$237.6 million, representing an increase of 6.6% from HK$223.0 million in 1H2017. The Group's gross profit margin decreased by 2.1 percentage points to 60.6% as compared to 62.7% in 1H2017. The decrease was mainly due to the increase in the raw materials and packaging material costs, higher staff cost impacted by the adjustment in minimum wages, deeper rebates offered to customers of its wholesale business and appreciation of RMB resulting in an increase in cost of sales.

Staff Costs

In 1H2018, the Group's staff costs amounted to HK$122.6 million, representing an increase of 6.3% from HK$115.3 million in 1H2017. The staff costs-to-revenue ratio is 31.3% as compared to 32.4% in 1H2017.

Rental Expenses

In 1H2018, the Group's rental expenses in relation to its retail shops amounted to HK$54.5 million, representing an increase of 4.0% from HK$52.4 million in 1H2017. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-revenue ratio (in Hong Kong and Mainland China) is 19.0% as compared to 20.1% in 1H2017.

Advertising and Promotion Expenses

In 1H2018, the Group's advertising and promotion expenses amounted to HK$14.2 million, representing an increase of 7.8% from HK$13.2 million in 1H2017. This accounted for 3.6% and 3.7% respectively in percentage to revenue in 1H2018 and 1H2017.

Depreciation and Amortisation

In 1H2018, the depreciation and amortisation of the Group amounted to HK$15.2 million, representing a decrease of 4.6% from HK$15.9 million in 1H2017. This accounted for 3.9% and 4.5% respectively in percentage to revenue in 1H2018 and 1H2017.

Net Profit

Profit attributable to owners of the Company for the year ended 30 June 2018 was HK$4.2 million, representing an increase of 39.7% from HK$3.0 million in 1H2017. The net profit margin (calculated as profit attributable to owners of the Company as a ratio of revenue) for six months ended 30 June 2018 was 1.1%, as compared to 0.9% in 1H2017.

Basic earnings per share for the six months ended 30 June 2018 amounted to HK0.65 cent, as compared to HK0.46 cent in 1H2017.

Capital Expenditure

During 1H2018, capital expenditure amounted to HK$33.0 million (1H2017: HK$11.5 million). This amount was used mainly for the opening of new shops, the revamping of existing retail shops and the construction for new production facilities in Kaiping City, Guangdong Province.

Liquidity and Financial Resources Review

Our Group is financially sound with bank deposits and cash amounting to HK$131.2 million as at 30 June 2018 (31 December 2017: HK$114.7 million).

As at 30 June 2018, the gearing ratio of the Group was 0.31 (31 December 2017: 0.20), which was calculated based on total interest bearing borrowings divided by total equity attributable to owners of the Company.

As at 30 June 2018, the Group had total banking facilities of HK$189.8 million (31 December 2017: HK$122.1 million) of which HK$86.8 million (31 December 2017: HK$54.1 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 the business primarily in HK$ and RMB. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB. 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 2018.

Contingent Liabilities

(i) Taclon Industries Limited ("**Taclon**"), a subsidiary of the Company, is involved in a potential litigation claim 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, 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 which the Directors consider an outflow of resources is not probable.

Human Resources

During 1H2018, the Group employed approximately 1,300 employees in average. 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 six months ended 30 June 2018, 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 retail services, as well as enhance customer experience and to ensure the smooth and effective operation of the Point-of-Sales 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

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 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 2018.

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 2018, 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 2018.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the unaudited interim financial information for the six months ended 30 June 2018 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 2018, 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 2018 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, 28 August 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.