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 2018

HIGHLIGHTS

- Revenue for continuing operations for the year ended 31 December 2018 (“**2018**”) increased by 7.3% to HK$783.4 million from HK$729.8 million for the year ended 31 December 2017 (“**2017**”).
  - Revenue from retail business increased by 8.1% to HK$557.9 million, with retail network comprising 115 retail shops in Hong Kong as at 31 December 2018.
  - Revenue from wholesale business increased by 5.6% to HK$225.5 million, with distribution network now covering 48 cities in 18 provinces, and a total of 75 distributors in Mainland China.
- Gross profit for continuing operations in 2018 increased by 4.8% to HK$476.3 million from HK$454.6 million in 2017, and gross profit margin for 2018 decreased by 1.5 percentage point to 60.8% as compared to 62.3% in 2017.
- Profit attributable to owners of the Company for 2018 was HK$9.4 million (2017: HK$8.1 million), which arrived at after deducting certain one-off expenses incurred relating to relocation of production facilities from Guanlan and Dongguan, Shenzhen City to Kaiping City, Guangdong Province, as well as closure of all retail stores in Guangzhou, Mainland China in 2018. Excluding the aforementioned one-off expenses, the profit attributable to owners of the Company would have been HK$28.4 million.
- Earnings per share for profit attributable to owners of the Company for 2018 was HK1.43 cents (2017: HK1.24 cents).
- Proposed final dividend and special dividend of HK0.43 cent and HK0.36 cent per ordinary share, respectively, totalling HK0.79 cent per ordinary share (2017: 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 2018 together with comparative figures for the previous financial year 2017, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December	
		2018	2017
	Note	***HK$'000***	*HK$'000*
			(Restated)
Continuing operations			
Revenue	*3, 4*	**783,383**	729,776
Cost of sales	*6*	**(307,036)**	(275,137)
Gross profit		**476,347**	454,639
Other (losses)/income	*5*	**(1,326)**	453
Selling and distribution costs	*6*	**(84,739)**	(77,215)
Administrative and operating expenses	*6*	**(380,232)**	(366,540)
Operating profit		**10,050**	11,337
Finance income	*7*	**100**	120
Finance costs	*7*	**(293)**	(937)
Finance costs, net	*7*	**(193)**	(817)
Profit before income tax		**9,857**	10,520
Income tax credit/(expense)	*8*	**2,888**	(149)
Profit for the year from continuing operations		**12,745**	10,371
Loss for the year from discontinued operation	*9*	**(4,437)**	(2,369)
Profit for the year		**8,308**	8,002
Profit/(loss) attributable to:			
Owners of the Company		**9,374**	8,106
Non-controlling interests		**(1,066)**	(104)
		8,308	8,002

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000 (Restated)
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
– Currency translation differences for continuing operations		**(7,602)**	7,442
– Currency translation differences for discontinued operation		**(68)**	(190)
Other comprehensive (loss)/income, net of tax		**(7,670)**	7,252
Total comprehensive income for the year		**638**	15,254
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**1,909**	15,021
Non-controlling interests		**(1,271)**	233
		638	15,254
Total comprehensive income/(loss) attributable to owners of the Company arises from:			
Continuing operations		**5,439**	17,310
Discontinued operation		**(4,801)**	(2,056)
		638	15,254
Earnings per share for profit from continuing operations attributable to owners of the Company			
– Basic and diluted *(HK cents per share)*	*10*	**2.11**	1.60
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted *(HK cents per share)*	*10*	**1.43**	1.24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**56,059**	58,054
Property, plant and equipment		**288,562**	236,843
Prepayments and deposits		**28,271**	28,273
Deferred income tax assets		**11,438**	8,753
		384,330	331,923
Current assets			
Inventories		**32,942**	29,899
Trade receivables	*12*	**43,356**	54,935
Prepayments, deposits and other receivables		**45,893**	30,603
Amount due from a related company		**690**	690
Tax recoverable		**1,715**	986
Pledged bank deposits		**–**	1,070
Cash and cash equivalents		**128,391**	113,588
		252,987	231,771
Total assets		**637,317**	563,694
EQUITY			
Equity attributable to owners of the Company			
Share capital	*13*	**6,559**	6,559
Share premium	*13*	**214,999**	214,999
Reserves		**50,369**	44,655
		271,927	266,213
Non-controlling interests		**(233)**	1,038
Total equity		**271,694**	267,251

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		**3,830**	4,994
Deferred income tax liabilities		**86**	441
Bank borrowings		**58,615**	31,659
		62,531	37,094
Current liabilities			
Trade payables	*14*	**40,450**	28,378
Accruals and other payables	*15*	**71,499**	59,640
Provision for reinstatement costs		**3,772**	1,529
Receipts in advance		**151,057**	146,663
Bank borrowings		**35,477**	20,783
Taxation payable		**837**	2,356
		303,092	259,349
Total liabilities		**365,623**	296,443
Total equity and liabilities		**637,317**	563,694
Net current liabilities		**(50,105)**	(27,578)
Total assets less current liabilities		**334,225**	304,345

NOTES

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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$50,105,000 as at 31 December 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$145,060,000 for the Hong Kong retail business (31 December 2017: HK$138,399,000) included in current liabilities, the Group would have net current assets of HK$94,955,000 as at 31 December 2018 (31 December 2017: HK$110,821,000). 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

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
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	Investments in associates and joint ventures
Amendments to HKAS 40	Transfers of investment property
Annual Improvements Project	Annual Improvements 2014-2016 Cycle

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15, which are disclosed in note 2.2. The other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period.

2.1.2 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
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements Project (Amendment)	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 1 and HKAS 8 (Amendment)	Definition of materials	1 January 2020
HKFRS 3 (Amendment)	Definition of Business	1 January 2020
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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 New and amended standards not yet adopted (Continued)

The Group will adopt the above new standards and amendments to existing standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standards and amendments, none of which is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, 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.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$159,968,000. Of these commitments, approximately HK$23,000,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon the application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability both around HK$100,000,000 in respect of all these leases in the Group's consolidated statements of financial position unless they qualify for low value or short-term leases. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 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 consolidated financial statements.

(a) Impact on consolidated financial statements

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.

Statement of financial position (extract)	31 December 2017 As originally presented *HK$'000*	HKFRS 9 *HK$'000*	HKFRS 15 *HK$'000*	1 January 2018 (Restated) *HK$'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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

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

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 retained earnings on the consolidated statement of financial position on 1 January 2018.

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

	Note	**2018** ***HK$'000***
Closing retained earnings 31 December – HKAS 39/HKAS 18		**27,959**
Increase in provision for impairment on trade receivables	*(ii)*	**(578)**
Opening retained earnings 1 January – 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 has three main types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables;
- cash and cash equivalents; and
- other financial assets measured at amortised costs (including deposits and other receivables and amount due from a related company).

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 is disclosed in the table in note 2.2(b) above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

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

(ii) Impairment of financial assets (Continued)

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was considered immaterial.

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.

The Group has assessed the expected credit loss model applied to the trade receivables as at 1 January 2018 and this resulted in an increase of the provision for impairment of trade receivables on 1 January 2018 by HK$578,000. Details about the calculation of the allowance are disclosed in note 2.1(b).

Trade receivables are written off when there is no reasonable expectation of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the written-off.

Other financial assets measured at amortised cost

Other financial assets at amortised cost include deposits and other receivables and amount due from a related company. The Group has applied the expected credit loss model to these financial assets as at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

(c) 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 consolidated financial statements. As such, comparatives for the 2017 financial year would not be restated but contracts which have remaining obligations as of the effective date had resulted in an adjustment to the opening balance of the retained earnings as at 1 January 2018.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

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

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

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

(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 consolidated 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.

3 SEGMENT INFORMATION

During the year ended 31 December 2018, the Group discontinued the retail business in the PRC which was previously included in the "PRC Retail" segment, the related comparative information has been restated.

The segment information provided to the executive directors for the year ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December 2018		
	Hong Kong Retail *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**564,276**	**227,994**	**792,270**
Less: Inter-segment revenue	**(6,384)**	**(2,503)**	**(8,887)**
Revenue from external customers	**557,892**	**225,491**	**783,383**
Segment results	**74,591**	**4,371**	**78,962**
Corporate expenses			**(51,540)**
Relocation of factories related expenses			**(17,372)**
Finance costs, net			**(193)**
Profit before income tax			**9,857**
Income tax credit			**2,888**
Profit for the year			**12,745**
Other segment items:			
Capital expenditure	**15,443**	**70,506**	**85,949**
Depreciation and amortisation	**21,296**	**8,242**	**29,538**
Losses on disposal of property, plant and equipment	**154**	**–**	**154**
Provision/(reversal of provision) for impairment on trade receivables	**35**	**(33)**	**2**
Interest income	**29**	**71**	**100**

	Year ended 31 December 2017		
	Hong Kong Retail *HK$'000*	Wholesale *HK$'000*	Total *HK$'000* (Restated)
Segment revenue	518,767	217,854	736,621
Less: Inter-segment revenue	(2,618)	(4,227)	(6,845)
Revenue from external customers	516,149	213,627	729,776
Segment results	50,721	6,493	57,214
Corporate expenses			(45,877)
Finance costs, net			(817)
Profit before income tax			10,520
Income tax expense			(149)
Profit for the year			10,371
Other segment items:			
Capital expenditure	9,882	36,783	46,665
Depreciation and amortisation	21,683	8,412	30,095
Losses on disposal of property, plant and equipment	85	12	97
Provision for impairment on trade receivables	24	–	24
Interest income	45	75	120

3 SEGMENT INFORMATION (CONTINUED)

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

	Hong Kong Retail	Wholesale	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2018				
Segment assets	**346,452**	**254,640**	**(901)**	**600,191**
Amount due from a related company				**690**
Tax recoverable				**1,715**
Deferred income tax assets				**11,438**
Corporate assets				**16,454**
Discontinued operation				**6,829**
Total assets				**637,317**
As at 31 December 2017				
Segment assets	333,376	208,122	(4,243)	537,255
Amount due from a related company				690
Tax recoverable				986
Deferred income tax assets				8,753
Corporate assets				8,947
Discontinued operation				7,063
Total assets				563,694

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 2018, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2017: 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	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Hong Kong	**677,550**	632,672
The PRC	**88,891**	81,216
Overseas countries	**16,942**	15,888
	783,383	729,776

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2018 and 2017.

3 SEGMENT INFORMATION (CONTINUED)

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	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Hong Kong	**396,590**	381,137
The PRC	**203,601**	156,118
	600,191	537,255

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

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**230,480**	240,436
The PRC	**142,412**	82,734
	372,892	323,170

4 REVENUE

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

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Sale of goods	**759,717**	709,900
Revenue recognised upon expiry of pre-paid coupons and cards	**23,666**	19,876
	783,383	729,776

(a) Revenue recognition in relation to contract liabilities

As at 31 December 2018, receipts in advance and deferred revenue amounting to HK$151,057,000 and HK$1,626,000 respectively.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward receipts in advance and deferred revenue:

	2018
	HK$'000
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	**139,086**

(b) Unsatisfied long-term contracts

The Group selected to choose a practical expedient and omit disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

5 OTHER (LOSSES)/INCOME

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Insurance claim	**161**	408
Service fee	**362**	–
Exchange difference	**(1,213)**	(138)
Losses on disposal of property, plant and equipment *(Note)*	**(1,388)**	(97)
Others	**752**	280
Total other (losses)/income	**(1,326)**	453

Note: Included in this balance, a total of HK$1,234,000 is derived from the relocation of production plant during the year.

6 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**235,515**	201,856
Operating lease rental in respect of retail outlets		
– Minimum rental	**106,134**	103,921
– Contingent rental	**176**	297
Operating lease rental in respect of storage spaces and office premises	**19,909**	20,658
Advertising and promotional expenditure	**30,350**	28,592
Amortisation of leasehold land	**1,594**	1,416
Depreciation of property, plant and equipment	**27,944**	28,679
Communication and utilities	**33,463**	34,108
Employee benefit expenses (including directors' emoluments)	**229,451**	231,731
Restructuring costs *(Note)*	**16,138**	–
Provision/(reversal of provision) for obsolete inventories	**46**	(446)
Provision for impairment on trade receivables	**2**	24
Legal and professional fees	**4,196**	3,768
Auditors' remuneration		
– Audit services	**2,880**	2,850
– Non-audit services	**169**	259
Tools, repair and maintenance expenses	**7,974**	9,561
Transportation and distribution expenses	**37,591**	34,024
Others	**18,475**	17,594
Total cost of sales, selling and distribution costs and administrative and operating expenses	**772,007**	718,892

Note: The restructuring costs primarily include termination benefits of HK$14,205,000 paid to employees as a result of the relocation of production plant during the year.

7 FINANCE COSTS, NET

	Year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Finance income:		
– Interest income	**100**	120
Finance costs:		
– Interest expenses on borrowings	**(1,966)**	(1,552)
– Interest expenses on finance leases	**(19)**	(21)
	(1,985)	(1,573)
Amount capitalised *(Note (a))*	**1,692**	636
	(293)	(937)
Finance costs, net	**(193)**	(817)

Note:

(a) The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 2.48% (2017: 2.84%).

8 INCOME TAX (CREDIT)/EXPENSE

Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% for the year ended 31 December 2018 (2017: 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% (2017: 25%).

8 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

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

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Current tax:		
PRC CIT on profits for the year	**68**	216
Under/(over)-provision in prior years	**155**	(206)
Deferred income tax	**(3,043)**	329
Income tax (credit)/expense	**(2,820)**	339
Income tax (credit)/expense is attributable to:		
Profit from continuing operations	**(2,888)**	149
Loss from discontinued operation	**68**	190
	(2,820)	339

9 DISCONTINUED OPERATION

During the year ended 31 December 2018, the Group discontinued the retail business in the PRC. The results of the discontinued operation for the year ended 31 December 2018 and 2017 are presented below:

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Revenue	**7,704**	12,083
Other (losses)/income	**(439)**	154
Cost of sales and expenses	**(11,634)**	(14,416)
Loss before income tax	**(4,369)**	(2,179)
Income tax expense	**(68)**	(190)
Loss from discontinued operation	**(4,437)**	(2,369)
Currency translation differences	**(364)**	313
Total comprehensive loss arises from discontinued operation	**(4,801)**	(2,056)

Loss for the year of discontinued operation has been arrived at after charging:

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Expenses relating to closure of business		
– Losses on disposal of property, plant and equipment	**450**	19
– Termination benefits	**641**	–
– Others	**522**	–
Depreciation of property, plant and equipment	**739**	769

10 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	
	2018	2017
Profit from continuing operations attributable to owners of the Company *(HK$'000)*	**13,811**	10,475
Loss from discontinued operation attributable to owners of the Company *(HK$'000)*	**(4,437)**	(2,369)
Profit for the purpose of basic and diluted earnings per share from continuing and discontinued operations	**9,374**	8,106
Weighted average number of ordinary shares for the calculation of basic earnings per share *(thousands)*	**655,944**	655,944
Earnings per share for profit from continuing operations attributable to owners of the Company		
– Basic earnings per share *(HK cents)*	**2.11**	1.60
– Diluted earnings per share *(HK cents)*	**2.11**	1.60
Earnings per share for profit attributable to owners of the Company		
– Basic earnings per share *(HK cents)*	**1.43**	1.24
– Diluted earnings per share *(HK cents)*	**1.43**	1.24

(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. Diluted earnings per share for the year ended 31 December 2018 and 2017 equal basic earnings per share as there were no outstanding share options as at both years end.

11 DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends attributable to the year		
Proposed final dividend of HK0.43 cent (2017: HK0.37 cent) per ordinary share	**2,821**	2,427
Proposed special dividend of HK0.36 cent (2017: HK0.31 cent) per ordinary share	**2,361**	2,033
	5,182	4,460
Dividends paid during the year	**4,460**	4,985

A final dividend and a special dividend in respect of the year ended 31 December 2018 of HK0.43 cent and HK0.36 cent per ordinary share respectively, amounting to a total dividend of HK$5,182,000 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 2019.

12 TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**45,666**	57,348
Less: Provision for impairment of trade receivables	**(2,310)**	(2,413)
Trade receivables, net	**43,356**	54,935

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

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Less than 30 days	**18,487**	23,320
31-90 days	**22,722**	26,459
Over 90 days	**2,147**	5,156
	43,356	54,935

12 TRADE RECEIVABLES (CONTINUED)

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the aging from billing.

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

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**2,413**	5,540
Change in account policy	**578**	–
Restated total at 1 January	**2,991**	5,540
Provision for impairment of trade receivables *(Note 6)*	**2**	24
Receivables written off during the year as uncollectible	**(602)**	(3,268)
Exchange difference	**(81)**	117
At 31 December	**2,310**	2,413

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.

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

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
HK$	**38,011**	40,254
RMB	**5,345**	14,681
	43,356	54,935

13 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Nominal value of Ordinary shares *HK$'000*
Authorised:		
At 31 December 2017 and 31 December 2018	1,000,000,000	10,000

	Number of shares	Nominal value of Ordinary shares *HK$'000*	Share premium *HK$'000*
Issued and fully paid:			
At 1 January 2017, 31 December 2017 and 31 December 2018	655,944,000	6,559	214,999

14 TRADE PAYABLES

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Trade payables	**40,450**	28,378

As at 31 December 2018, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**18,826**	14,688
31 to 60 days	**14,538**	11,150
61 to 90 days	**4,355**	2,457
Over 90 days	**2,731**	83
	40,450	28,378

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

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
HK$	**18,018**	16,165
RMB	**22,432**	12,213
	40,450	28,378

15 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Accruals for employee benefit expenses	**20,118**	23,188
Provision for restructuring costs	**13,051**	–
Accruals for marketing and promotional expenses	**1,550**	1,461
Accruals for sales rebate	**2,252**	1,314
Rental and related expenses payable	**4,601**	5,300
Office and utilities expenses payable	**2,637**	2,811
Deferred revenue	**1,626**	1,266
Consideration payable for property, plant and equipment acquired	**2,983**	4,189
Accruals for transportation and delivery charges	**4,411**	5,846
Accruals for audit fee	**2,616**	2,557
Other accruals and other payables	**15,654**	11,708
	71,499	59,640

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

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
HK$	**46,353**	46,553
RMB	**25,146**	13,087
	71,499	59,640

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the financial year, the Hong Kong and Mainland China retail sectors experienced greater headwinds as consumer confidence began to erode in the latter half year in the wake of the Sino-US trade dispute. In view of the rapidly changing retail sales environment in Mainland China, the Group elected to cease all retail operations in Mainland China in December 2018. Despite of this, the Group performed encouragingly owing to strong brand recognition from Hong Kong consumers on the retail front, and increased contributions from the Mainland China and Hong Kong wholesale businesses.

Revenue for continuing operations increased by 7.3% year-on-year to HK$783.4 million (2017: HK$729.8 million).

Gross profit for continuing operations rose by 4.8% to HK$476.3 million (2017: HK$454.6 million), due to robust performance by the Hong Kong retail operation. Gross profit margin for continuing operations slipped modestly, however, to 60.8% (2017: 62.3%), because of increases in raw material and packaging material costs, as well as a rise in factory wages.

Profit attributable to owners of the Company totalled HK$9.4 million (2017: HK$8.1 million), representing an increase of 15.6% over last year. As mentioned in the Group's 2018 interim report, the Group incurred certain one-off expenses in the second half year (including severance payments and write-off of plant and equipment) relating to the relocation of its production facilities from Guanlan and Dongguan, Shenzhen City, to Kaiping City, Guangdong Province, as well as the closure of all retail stores in Guangzhou, Mainland China. The Group's performance was also impacted to a lesser extent by the increase in shop rent and wages. Excluding the aforementioned one-off expenses pertaining to the Kaiping plant and closure of retail stores in Guangzhou, Mainland China, the profit attributable to owners of the Company would have been HK$28.4 million. Even though the Group's bottom line was impacted in the financial year, the management trusts that the new Kaiping facilities will increase production capacity and lower production costs over the long term.

The Group remains in a healthy financial position with HK$128.4 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

Hong Kong Retail

The Hong Kong retail business remained the largest revenue contributor to the Group, generating HK$557.9 million (2017: HK$516.1 million) during the review year, up 8.1% year-on-year, and accounting for 71.2% of total revenue. The increase can be attributed in particular to satisfactory same-store sales growth, which was driven by strong sales from the Joyous Series (自家喜慶系列), including Organic Chicken Essence (有機滴雞精) and Stewed Pork Trotter and Ginger in Sweet Vinegar (自家豬腳薑醋), as well as a notable increase in coupon sales via online platforms, corporate partners and at various exhibitions. Segment profit rose appreciably to HK$74.6 million, up 47.1% from HK$50.7 million in 2017, which was due to higher revenue and effective control of operating costs.

During the financial year, the Group has continued to deliver omnichannel experiences to its customers. In respect of traditional brick-and-mortar stores, the Group opened nine new shops in 2018, located in stations along the MTR Island Line Western Extension, shopping malls and a hospital. The Group has maintained its standing as the largest herbal retailer in Hong Kong based on retail network size, totalling 115 self-operated shops as at 31 December 2018.

To reach customers in an innovative and more engaging manner, the Group introduced Smart Vendors, known as "HUNG+ (鴻家)", which enables it to increase exposure beyond traditional shops and provide customers with 24/7 personalised services. As at 31 December 2018, there are 15 HUNG+ machines in operation, located in commercial buildings, shopping malls, residential estates and the airport. Since HUNG+ employs artificial intelligence that recognises facial features, it is able to suggest products that are most appropriate for the users and thereby enhance their shopping experience, leading to greater customer satisfaction.

With reference to the e-commerce realm, Hung Fook Tong Online ("HFT Online") has continued to provide a viable alternative to technology inclined consumers in Hong Kong. Reflecting the effectiveness and excellence of the platform, HFT Online earned the "Quality E-Shop" designation from the Hong Kong Retail Management Association ("HKRMA") in 2018, marking the second consecutive year that the platform has been so honoured.

As for reaching out to the Hong Kong public on a more personal level, the Group has recruited Ms Jade Kwan (關心妍), a talented singer and mother, as brand ambassador of the Joyous Series – one of the key product lines of the Group. The management trusts that Ms Kwan's affable manner and maternal instincts are ideal traits for promoting the series.

Owing to the aforementioned efforts, along with steady progress made by the Group's mobile application, JIKA CLUB (自家CLUB) has further extended its reach to over 825,000 members as at 31 December 2018, representing a significant increase of nearly 94,000 members during the financial year. Average spending per member has increased as well, driven by bonus point rewards and incentive programmes.

Wholesale

The Group recorded an increase in segment revenue from the wholesale business, rising by 5.6% year-on-year to HK$225.5 million (2017: HK$213.6 million). The upswing was primarily due to the launch of new products in Hong Kong and Mainland China, as well as expansion of sales channels during the review year. However, segment profit declined to HK$4.4 million (2017: HK$6.5 million), owing to a number of factors, including greater cost incurred from the purchase of packaging materials, i.e. Polyethylene Terephthalate ("PET") bottles; appreciation of the Renminbi ("RMB"), which impacted the results of the Hong Kong wholesale segment; and increased logistical costs in Mainland China – principally to northern cities, a side effect of improved performance by the Beijing operation.

The Hong Kong wholesale operation contributed revenue of HK$136.6 million (2017: HK$132.4 million), up 3.2% year-on-year. The increase was mainly due to the introduction of several new products such as Sparkling Salted Mandarin Drink (咸柑桔氣泡飲) and Durian Coconut Drink (榴槤椰香甘露), which boosted sales from grocery and general trade stores. Another contributing factor was the expansion of sales channels, which enabled the Group to tap more food and beverage operators such as Chinese hotpot restaurant and a Japanese buffet restaurant. Also helping spur sales was greater brand exposure via product placements in the TVB programme "Cooking Beauties (美女廚房)", as well as the implementation of eSports (電子競技) oriented campaigns. Consequently, the Group maintained its no.1 position in the Wellness Drink Category in Hong Kong based on sales value and volume. This marks the 16th consecutive year that the Group has preserved its top position – capturing 35.0% market share based on sales value in 2018 – according to Nielsen.

The Group has continued to make inroads outside of Hong Kong as well. In Taiwan, the Group strengthened its presence in FamilyMart stores by introducing Salted Lime Drink (咸青檸), winter drinks such as hot lemon tea (熱檸茶) and hot Sugarcane Drink (熱甘蔗汁), all of which helped to drive sales during the second half year.

Revenue from the Mainland China wholesale business rose encouragingly by 9.5% year-on-year to HK$88.9 million (2017: HK$81.2 million). This was due to the expansion of the Group's general trade sales network – driven by its partnership with a B2B online platform in Southern China, greater sales from Northern China as a result of stable sales growth from a major convenience store in Beijing, and the launch of several new products such as Passion Fruit with Honey Drink (百香果蜜), Fresh Herbal Tea (鮮製涼茶) and Sparkling Salted Mandarin Drink. As at the end of the review year, the Group possesses an extensive distribution network, comprising 75 distributors covering 18 provinces and 48 cities; among which Guangzhou continues to be the largest revenue contributor.

Discontinued Operation

As disclosed above, the Group elected to cease all retail operations in Mainland China in December 2018. Consequently, the business contributed revenue of HK$7.7 million (2017: HK$12.1 million), and recorded a segment loss of HK$4.4 million (2017: loss of HK$2.2 million) during the financial year. The loss was mainly due to one-off expenses of approximately HK$1.6 million relating to the closure of the Group's 15 self-operated retail stores, all located in Guangzhou, Guangdong Province during the financial year. The management nonetheless believes that by concluding retail operations in Mainland China, it will be able to better allocate and focus its human, financial and operational resources on its retail business in Hong Kong, as well as advance its wholesale business in the best interest of the Company and its shareholders.

Production Capability

During the financial year, the production plant at Guanlan, Shenzhen City has been relocated to Kaiping City, Guangdong Province, thus the Group's production capacity will be further enhanced. As for the Tai Po production plant in Hong Kong, the Group has remained committed to maintaining a high level of food safety management. This has been reflected by the facility's ability to again obtain ISO22000, HACCP (Hazard Analysis Critical Control Point) and GMP (Good Manufacturing Practices) accreditation from Accredited Certification International Limited ("ACI") in early 2019. The certificates, obtained since 2016, covered the manufacturing of a variety of the Group's food products, ranging from soup, herbal tea, cooked food to pork trotters and ginger. The accreditations testify to the Group's longstanding and successful efforts to deliver products that meet high safety standards.

PROSPECTS

Consumer sentiment in Hong Kong and Mainland China is expected to become increasingly cautious in the coming year, owing to the Sino-US trade dispute, possible depreciation of the RMB, and volatile stock and property markets. The headwinds will not, however, impede the Group's efforts to make further strides forward as it has sailed through numerous economic cycles over the past three decades of operation.

Unwaveringly, the Group will continue to strengthen its leadership in the Hong Kong retail market while at the same time reinforce its wholesale business in Mainland China. With the new Kaiping facilities commencing full production probably in the second quarter of 2019, the management trusts that the Group will benefit from lower production costs in the coming years. Just as importantly, the facilities will be able to support the demand for the Group's long shelf-life and fresh drinks from the Mainland China market, as it is equipped with four highly automated production lines.

Hong Kong Retail

Aside from taking steps to advance production, the Group will seek to protect its leadership in the Hong Kong retail market. The Group targets to open between six and eight new shops as part of its expansion strategy in 2019. Already, six sites have been secured, located in MTR stations and shopping malls, including one shop in Sham Tseng which has opened in January 2019. Other efforts to be pursued include expanding the Joyous Series by offering more postnatal meals (坐月食療) and essences; increasing the subscription rate of its digital membership card, thereby raising brand loyalty and spending; revising store designs for new shops to appeal to customers, and making further investments that facilitate technological innovation.

A vivid example of the Group's ability to innovate has been the introduction of HUNG+. In the coming year, the Smart Vendor will find its way to around eight new locations, with one machine already in operation at a commercial building. As shop rent and wages will continue to rise, the use of more HUNG+ machines will enable the Group to benefit from greater economies of scale and cost reduction. Just as importantly, it will be able to gather customer purchase information, which, via data analytics, will allow the management to gain valuable insights into consumption patterns, leading to the development of more effective sales and marketing strategies.

Remaining in the vanguard of market innovation, the Group is embracing the new era of Smart Retailing by operating the first smart concept shop (智能概念店) in Hong Kong. Opened subsequent to the financial year, i.e. January 2019, the concept shop is located in Kowloon Tong, and is equipped with self-checkout kiosks and e-payment options, while a facial recognition payment system is in the pipeline. The Group will closely monitor the store, which doubles as an important testing ground, and will evaluate the viability of rolling out several more smart concept shops in the coming year, as the retail landscape becomes increasingly diversified.

Wholesale

To continue building growth momentum in the Hong Kong wholesale market, the Group will be launching new herbal or fruity drink products featuring new packaging that appeals to a diverse spectrum of the general public to capture greater market share. It will also enter into joint promotions with other brands such as the licence holders of cartoon characters to draw attention to the Hung Fook Tong brand. Furthermore, efforts will be made at tapping food and beverage outlets, especially those that offer hotpot buffets, as well as bakeries.

In respect of overseas markets, the Group plans to launch ambient drink products in Vietnam, while in Singapore it will be introducing chilled products in the coming year.

The wholesale operation in Mainland China remains an important part of the Group's makeup, and the management will seek to maximise its potential in 2019, despite the fast changing and competitive nature of the local beverage market. To drive sales in Southern China, the Group will direct greater attention to tapping second-tier cities by extending sales channels to grocery shops, restaurants, schools, etc. Furthermore, the top selling products in Southern China will serve as catalyst for strengthening the Group's presence in other parts of the country, and will be supported by a push to penetrate convenience stores and hypermarkets.

To address the ever changing tastes of consumers, the Group will launch more new products, as well as consider distributing imported beverage products. On the online front, not only will the Group partner with B2C e-retailers but also leading B2B online platforms to achieve better coverage.

CONCLUSION

Constantly striving for excellence, the Group will seek to build on its accomplishments in the coming year, particularly on the technology front. This will include enriching omnichannel experiences, honing technologies recently introduced and bringing even more innovations that benefits consumers. By taking a leadership role in advancing the wellness food and beverage industry, the management is confident that the Group will be able to further raise its stature in Hong Kong and Mainland China and achieve favourable outcomes for all stakeholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group's revenue for the continuing operations amounted to HK$783.4 million, representing an increase of 7.3% from HK$729.8 million in 2017. Despite the keen competition in the retail market in both Hong Kong and Mainland China, revenue from Hong Kong retail operation has increased to HK$557.9 million, representing an increase of 8.1% from HK$516.1 million in 2017 as a result of satisfactory same-store sales growth partly resulting from the sales of products from the Joyous Series and an increase in coupon sales by expanding the customer base via different online platforms, corporate partners and at various exhibitions. Revenue from wholesale business has also increased to HK$225.5 million, representing an increase of 5.6% from HK$213.6 million in 2017 due to the launch of new products and the expansion of sales channels.

Cost of Sales

For the year ended 31 December 2018, the Group's cost of sales for the continuing operations amounted to HK$307.0 million, representing an increase of 11.6% from HK$275.1 million in 2017. As a percentage of revenue, cost of sales represented 39.2% and 37.7% in 2018 and 2017 respectively.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2018, the Group's gross profit for the continuing operations amounted to HK$476.3 million, representing an increase of 4.8% from HK$454.6 million in 2017. The Group's gross profit margin for the continuing operations decreased by 1.5 percentage points to 60.8% as compared to 62.3% in 2017. The decrease was mainly due to the increase in the raw material and packaging material costs, higher staff cost impacted by the adjustment in minimum wages and appreciation of RMB resulting in an increase in cost of sales.

Staff Costs

For the year ended 31 December 2018, the Group's staff costs for the continuing operations, excluding termination benefits as a result of the relocation of production plant during the year. amounted to HK$229.5 million, representing a decrease of 1.0% from HK$231.7 million in 2017. The staff costs-to-revenue ratio for the continuing operations is 29.3% as compared to 31.8% in 2017.

Rental Expenses

For the year ended 31 December 2018, the Group's rental expenses in relation to its retail shops for the continuing operations amounted to HK$106.3 million, representing an increase of 2.0% from HK$104.2 million in 2017. 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 for the Hong Kong retail shops is 19.1% as compared to 20.2% in 2017.

Advertising and Promotion Expenses

For the year ended 31 December 2018, the Group's advertising and promotion expenses for the continuing operations amounted to HK$30.4 million, representing an increase of 6.1% from HK$28.6 million in 2017. This accounted for 3.9% in percentage to revenue for the continuing operations in both 2018 and 2017.

Depreciation and Amortisation

For the year ended 31 December 2018, the depreciation and amortisation for the continuing operations of the Group amounted to HK$29.5 million, representing a decrease of 1.9% from HK$30.1 million in 2017. This accounted for 3.8% and 4.1% respectively in percentage to revenue for the continuing operations in 2018 and 2017.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2018 was HK$9.4 million, representing an increase of 15.6% from HK$8.1 million in 2017. The net profit margin (calculated as profit for the year as a ratio of revenue) remained at 1.1% for the year ended 31 December 2018 and 31 December 2017.

Earnings per share for profit from continuing operations attributable to owners of the Company for the year amounted to HK2.11 cents, as compared to HK1.60 cents in 2017. Earnings per share for profit attributable to owners of the Company for the year amounted to HK1.43 cents, as compared to HK1.24 cents in 2017.

Capital Expenditure

During the year ended 31 December 2018, capital expenditure amounted to HK$86.0 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, and the 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$128.4 million as at 31 December 2018 (31 December 2017: HK$114.7 million).

As at 31 December 2018, the gearing ratio of the Group was 0.35 (31 December 2017: 0.20), which was calculated based on total debt divided by total equity attributable to owners of the Company.

As at 31 December 2018, the Group had total banking facilities of HK$134.5 million (31 December 2017: HK$122.1 million) of which HK$95.8 million (31 December 2017: HK$54.1 million) had 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 HKD 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 financial year ended 31 December 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

As at 31 December 2018, the Group employed approximately 1,315 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 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 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. Herbal and Postnatal Care courses provided by Hong Kong University School of Professional and Continuing Education were launched to enhance frontline staff's basic knowledge of Chinese medicine for pregnant women.

OTHER INFORMATION

Dividends

A final dividend in respect of the year ended 31 December 2018 of HK0.43 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 HK0.36 cent per ordinary share. The proposed final and special dividends, amounted to a total of HK$5,182,000 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 2019.

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, 12 July 2019 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Thursday, 20 June 2019.

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM to be held on Thursday, 6 June 2019, the register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019, 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, 31 May 2019.

For determining the entitlement to the proposed final dividend and special dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 14 June 2019 to Thursday, 20 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and 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, 13 June 2019.

Corporate Governance Code

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Corporate Governance Code 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 2018.

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 2018, 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 2018.

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 2018 have been reviewed by the Audit Committee.

Scope of Work of the Auditor

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 2018 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 2018 containing all relevant information required by the Listing Rules will be despatched to shareholders of the Company and published on the designated website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.hungfooktong.com) in due course.

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

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises Mr. Tse Po Tat, Ms. Wong Pui Chu 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.