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 2019

HIGHLIGHTS

- Revenue for continuing operations for the year ended 31 December 2019 ("**2019**") decreased by 1.0% to HK$775.8 million from HK$783.4 million for the year ended 31 December 2018 ("**2018**").

  – Revenue from retail business increased by 4.2% to HK$581.1 million, with a retail network comprising 115 retail shops in Hong Kong as at 31 December 2019.

  – Revenue from wholesale business decreased by 13.7% to HK$194.7 million.

- Gross profit for continuing operations in 2019 increased by 2.6% to HK$488.7 million from HK$476.3 million in 2018, and gross profit margin for 2019 increased by 2.2 percentage points to 63.0% as compared to 60.8% in 2018.

- As a result of higher segment profit from the Hong Kong retail business, the termination of retail operations in Mainland China, which was in a loss-making position, as well as less one-off expenses incurred due to the relocation of production facilities from Shenzhen City (Guanlan and Dongguan) and Suzhou City to Kaiping City compared with 2018, profit attributable to owners of the Company for 2019 increased by 6.8% to HK$10.0 million (2018: HK$9.4 million).

- Earnings per share for profit attributable to owners of the Company for 2019 was HK1.53 cents (2018: HK1.43 cents).

- Proposed a final dividend and a special dividend of HK0.46 cent and HK0.38 cent per ordinary share, respectively, totalling HK0.84 cent per ordinary share (2018: final dividend and special dividend of HK0.43 cent and HK0.36 cent per ordinary share, respectively, totalling HK0.79 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 2019 together with comparative figures for the previous financial year 2018, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

		Year ended 31 December	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Continuing operations			
Revenue	*3,4*	**775,789**	783,383
Cost of sales	*6*	**(287,084)**	(307,036)
Gross profit		**488,705**	476,347
Other income/(losses)	*5*	**3,948**	(1,326)
Selling and distribution costs	*6*	**(89,689)**	(84,739)
Administrative and operating expenses	*6*	**(381,237)**	(380,230)
Impairment on trade receivables	*6,12*	**(1,875)**	(2)
Operating profit		**19,852**	10,050
Finance income	*7*	**81**	100
Finance costs	*7*	**(6,208)**	(293)
Finance costs, net	*7*	**(6,127)**	(193)
Share of losses of joint ventures accounted for using the equity method		**(55)**	–
Profit before income tax		**13,670**	9,857
Income tax (expense)/credit	*8*	**(3,268)**	2,888
Profit for the year from continuing operations		**10,402**	12,745
Discontinued operation			
Loss for the year from discontinued operation	*9*	**–**	(4,437)
Profit for the year		**10,402**	8,308
Profit/(loss) attributable to:			
Owners of the Company		**10,012**	9,374
Non-controlling interests		**390**	(1,066)
		10,402	8,308

	Note	Year ended 31 December 2019 HK$'000	2018 HK$'000
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
– Currency translation differences for continuing operations		**(4,123)**	(7,306)
– Currency translation differences for discontinued operation		**–**	(364)
Other comprehensive loss, net of tax		**(4,123)**	(7,670)
Total comprehensive income for the year		**6,279**	638
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**5,963**	1,909
Non-controlling interests		**316**	(1,271)
		6,279	638
Total comprehensive income/(loss) attributable to owners of the Company arises from:			
Continuing operations		**5,963**	6,710
Discontinued operation		**–**	(4,801)
		5,963	1,909
Earnings per share for profit from continuing operations attributable to owners of the Company			
– Basic and diluted *(HK cents per share)*	*10*	**1.53**	2.11
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted *(HK cents per share)*	*10*	**1.53**	1.43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	As at 31 December **2019** *HK$'000*	2018 *HK$'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights		**–**	56,059
Property, plant and equipment		**309,148**	288,562
Right-of-use assets		**204,016**	–
Investments in joint ventures		**55**	–
Prepayments and deposits		**28,486**	28,271
Deferred income tax assets		**7,594**	11,438
		549,299	384,330
Current assets			
Inventories		**43,768**	32,942
Trade receivables	*12*	**48,220**	43,356
Prepayments, deposits and other receivables		**50,806**	45,893
Amount due from a related company		**690**	690
Tax recoverable		**986**	1,715
Cash and cash equivalents		**95,353**	128,391
		239,823	252,987
Total assets		**789,122**	637,317
EQUITY			
Equity attributable to owners of the Company			
Share capital	*13*	**6,559**	6,559
Reserves		**265,125**	265,368
		271,684	271,927
Non-controlling interests		**83**	(233)
Total equity		**271,767**	271,694

	Note	As at 31 December 2019 HK$'000	2018 HK$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		**71,124**	–
Provision for reinstatement costs		**4,495**	3,830
Deferred income tax liabilities		**93**	86
Bank borrowings		**58,879**	58,615
		134,591	62,531
Current liabilities			
Trade payables	*14*	**34,720**	40,450
Accruals and other payables	*15*	**64,727**	71,499
Provision for reinstatement costs		**2,859**	3,772
Receipts in advance		**162,044**	151,057
Lease liabilities		**82,333**	–
Bank borrowings		**34,732**	35,477
Taxation payable		**1,349**	837
		382,764	303,092
Total liabilities		**517,355**	365,623
Total equity and liabilities		**789,122**	637,317
Net current liabilities		**(142,941)**	(50,105)
Total assets less current liabilities		**406,358**	334,225

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 consolidated financial statements) (the "**Business**").

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

These consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

2 BASIS OF PREPARATION AND 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$142,941,000 as at 31 December 2019 (2018: HK$50,105,000). The increase in net current liabilities is mainly due to the increase in current lease liabilities of HK$82,333,000 as at 31 December 2019 upon the adoption of HKFRS 16 "Leases" (Note 2.3(a)). The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2019. The directors are of the opinion that, taking into account the anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance and the continued availability of the Group's banking facilities, the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming twelve months from 31 December 2019. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

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

2.2 Summary of significant accounting policies

(a) New and amended standards adopted by the Group

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

HKFRS 16	Leases

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

The following amendments to existing standards, improvements and interpretation are effective to the Group for accounting periods beginning on or after 1 January 2019 but did not result in any significant impact on the results and financial position of the Group. No retrospective adjustments are required.

HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Annual Improvements Project (Amendment)	Annual Improvements 2015 – 2017 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 2019 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendment)	Definition of Materials	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting	1 January 2020
HKFRS 3 (Amendment)	Definition of Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

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

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

2.3 Changes in accounting policies

The following explains the impact of the adoption of HKFRS 16 "Leases" on the Group's consolidated financial statements and the new accounting policy.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3%.

	2019 ***HK$'000***
Operating lease commitments disclosed as at 31 December 2018	**159,968**
Less: Leases committed but not yet commenced as at 1 January 2019	**(16,471)**
Operating lease commitments of leases commenced as at 1 January 2019	**143,497**
Discounted using the lessee's incremental borrowing rate at the date of initial application	**135,299**
Less: Short-term leases recognised on a straight-line basis as expense	**(26,853)**
Lease liabilities recognised as at 1 January 2019	**108,446**
Of which are:	
Current lease liabilities	**60,224**
Non-current lease liabilities	**48,222**
	108,446

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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

2.3 Changes in accounting policies (Continued)

(a) Adjustments recognised on adoption of HKFRS 16 (Continued)

Leasehold land and land use rights are also reclassified to right-of-use assets with amount recognised in the consolidated statement of financial position as at 1 January 2019.

The following table shows the adjustment for change in accounting policy 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.

Statement of financial position (extract)	**31 December 2018 As originally presented** *HK$'000*	**HKFRS 16** *HK$'000*	**1 January 2019 Restated** *HK$'000*
Non-current assets			
Leasehold land and land use rights	56,059	(56,059)	–
Right-of-use assets	–	160,904	160,904
Deferred income tax assets	11,438	595	12,033
Total assets	637,317	105,440	742,757
Non-current liabilities			
Lease liabilities	–	48,222	48,222
Current liabilities			
Accruals and other payables	71,499	(1,982)	69,517
Lease liabilities	–	60,224	60,224
Total liabilities	365,623	106,464	472,087
Equity			
Reserves	265,368	(1,024)	264,344
Total equity	271,694	(1,024)	270,670

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

2.3 Changes in accounting policies (Continued)

(a) Adjustments recognised on adoption of HKFRS 16 (Continued)

(i) Impact on segment disclosures

The segment assets of the Hong Kong retail business has increased by HK$149,375,000 as at 31 December 2019 as a result of the change in accounting policy.

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease".

(iii) Accounting policy applied from 1 January 2019 – Leases

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 3 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

As explained above, the Group has changed its accounting policy for leases where the Group is the lessee.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

2.3 Changes in accounting policies (Continued)

(a) Adjustments recognised on adoption of HKFRS 16 (Continued)

(iii) Accounting policy applied from 1 January 2019 – Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and makes adjustments specific to the lease.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- any restoration cost

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise vending machines and small items of office furniture.

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 segment information provided to the executive directors for the year ended 31 December 2019 and 2018 is as follows:

	Year ended 31 December 2019		
	Hong Kong Retail *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**589,040**	**196,131**	**785,171**
Less: Inter-segment revenue	**(7,961)**	**(1,421)**	**(9,382)**
Revenue from external customers	**581,079**	**194,710**	**775,789**
Segment results	**81,111**	**(4,874)**	**76,237**
Corporate expenses			**(51,073)**
Relocation of factories related expenses			**(5,312)**
Share of losses of joint ventures accounted for using the equity method			**(55)**
Finance costs, net			**(6,127)**
Profit before income tax			**13,670**
Income tax expense			**(3,268)**
Profit for the year			**10,402**
Other segment items:			
Capital expenditure	**14,942**	**38,008**	**52,950**
Depreciation and amortisation	**103,727**	**8,841**	**112,568**
Gain on disposal of property, plant and equipment	**(15)**	**(506)**	**(521)**
Provision for impairment on trade receivables	**–**	**1,875**	**1,875**
Interest income	**(25)**	**(56)**	**(81)**

	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)

3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 31 December 2019 and 2018 are as follows:

	Hong Kong Retail	Wholesale	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2019				
Segment assets	**489,110**	**277,712**	**(607)**	**766,215**
Amount due from a related company				**690**
Investments in joint ventures				**55**
Tax recoverable				**986**
Deferred income tax assets				**7,594**
Corporate assets				**13,582**
Total assets				**789,122**
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

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 2019, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2018: 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	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**699,068**	677,550
The PRC	**59,743**	88,891
Overseas countries	**16,978**	16,942
	775,789	783,383

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2019 and 2018.

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	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**537,764**	396,590
The PRC	**228,451**	203,601
	766,215	600,191

Non-current assets, other than deferred income tax assets and investments in joint ventures, by geographical areas are as follows:

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**373,623**	230,480
The PRC	**168,027**	142,412
	541,650	372,892

4 REVENUE

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

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Sale of goods	**748,844**	759,717
Revenue recognised upon expiry of pre-paid coupons and cards	**26,945**	23,666
	775,789	783,383

(a) Revenue recognition in relation to contract liabilities

As at 31 December 2019 and 2018, receipts in advance and deferred revenue amounting to HK$162,044,000 (2018: HK$151,057,000) and HK$2,693,000 (2018: 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:

	2019	2018
	HK$'000	*HK$'000*
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	**146,686**	139,086

There is no revenue recognised during the current year (2018: Same) related to performance obligation that were satisfied in prior year.

(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 INCOME/(LOSSES)

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Insurance claim	**696**	161
Service fee	**1,700**	362
Exchange difference	**25**	(1,213)
Gain/(losses) on disposal of property, plant and equipment *(Note)*	**509**	(1,388)
Others	**1,018**	752
Total other income/(losses)	**3,948**	(1,326)

Note: Included in this balance, a total loss of HK$12,000 (2018: HK$1,234,000) is derived from the relocation of production plant during the year.

6 EXPENSES BY NATURE

		Year ended 31 December	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Cost of inventories sold		**222,018**	235,515
Lease rental in respect of retail outlets *(Note (a))*			
– Minimum rental		**19,685**	106,134
– Contingent rental		**285**	176
Lease rental in respect of storage spaces and office premises *(Note (a))*		**18,214**	19,909
Advertising and promotional expenditure		**33,592**	30,350
Amortisation of leasehold land and land use rights		**–**	1,594
Depreciation of property, plant and equipment		**29,563**	27,944
Depreciation of right-of-use assets		**83,005**	–
Communication and utilities		**33,706**	33,463
Employee benefit expenses (including directors' emoluments)		**238,896**	229,451
Restructuring costs *(Note (b))*		**5,300**	16,138
Provision for obsolete inventories		**342**	46
Provision for impairment on trade receivables	*12*	**1,875**	2
Write-off of property, plant and equipment		**165**	–
Legal and professional fees		**4,645**	4,196
Auditors' remuneration			
– Audit services		**2,850**	2,880
– Non-audit services		**390**	169
Tools, repair and maintenance expenses		**8,859**	7,974
Transportation and distribution expenses		**36,466**	37,591
Others		**20,029**	18,475
Total cost of sales, selling and distribution costs and administrative and operating expenses		**759,885**	772,007

Note:

(a) These expenses included short-term leases expenses of HK$25,018,000, variable lease payment expenses of HK$3,716,000 and other rental-related expenses of HK$9,450,000 for the year ended 31 December 2019.

(b) The restructuring costs primarily include termination benefits of HK$4,418,000 (2018: HK$14,205,000) paid to employees as a result of the relocation of production plant for the year ended 31 December 2019.

7 FINANCE COSTS, NET

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Finance income:		
– Interest income	**81**	100
Finance costs:		
– Interest expenses on borrowings	**(2,946)**	(1,966)
– Interest expenses on finance leases	**–**	(19)
– Interest and finance charges paid/payable for lease liabilities	**(3,829)**	–
	(6,775)	(1,985)
Amount capitalised *(Note (a))*	**567**	1,692
	(6,208)	(293)
Finance costs, net	**(6,127)**	(193)

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 Group's general borrowings during the year, in this case 3.12% (2018: 2.48%).

8 INCOME TAX EXPENSE/(CREDIT)

Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% for the year ended 31 December 2019 (2018: 16.5%) on the estimated assessable profit for the year.

PRC Corporate Income Tax

Group entities 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 these subsidiaries is 25% (2018: 25%).

8 INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

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

	Year ended 31 December	
	2019	2018
	HK$'000	*HK$'000*
Current tax:		
PRC CIT on profits for the year	**255**	68
(Over)/under-provision in prior years	**(1,317)**	155
Deferred income tax	**4,330**	(3,043)
Income tax expense/(credit)	**3,268**	(2,820)
Income tax expense/(credit) is attributable to:		
Profit from continuing operations	**3,268**	(2,888)
Loss from discontinued operation	**–**	68
	3,268	(2,820)

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 are presented below:

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

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

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

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	
	2019	2018
Profit from continuing operations attributable to owners of the Company *(HK$'000)*	**10,012**	13,811
Loss from discontinued operation attributable to owners of the Company *(HK$'000)*	**–**	(4,437)
Profit for the purpose of basic and diluted earnings per share from continuing and discontinued operations *(HK$'000)*	**10,012**	9,374
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)*	**1.53**	2.11
– Diluted earnings per share *(HK cents)*	**1.53**	2.11
Loss per share for loss from discontinued operation attributable to owners of the Company		
– Basic loss per share *(HK cents)*	**–**	(0.68)
– Diluted loss per share *(HK cents)*	**–**	(0.68)
Earnings per share for profit attributable to owners of the Company		
– Basic earnings per share *(HK cents)*	**1.53**	1.43
– Diluted earnings per share *(HK cents)*	**1.53**	1.43

(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 2019 and 2018 equal basic earnings per share as there were no outstanding share options as at both years end.

11 DIVIDENDS

	2019 *HK$'000*	2018 *HK$'000*
Dividends attributable to the year		
Proposed final dividend of HK0.46 cent (2018: HK0.43 cent) per ordinary share	**3,017**	2,821
Proposed special dividend of HK0.38 cent (2018: HK0.36 cent) per ordinary share	**2,493**	2,361
	5,510	5,182
Dividends paid during the year	**5,182**	4,460

A final dividend and a special dividend in respect of the year ended 31 December 2019 of HK0.46 cent and HK0.38 cent per ordinary share respectively, amounting to a total dividend of HK$5,510,000 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 2020.

12 TRADE RECEIVABLES

	As at 31 December	
	2019 *HK$'000*	2018 *HK$'000*
Trade receivables	**50,671**	45,666
Less: Provision for impairment of trade receivables	**(2,451)**	(2,310)
Trade receivables, net	**48,220**	43,356

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 31 December 2019 and 2018, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2019 *HK$'000*	2018 *HK$'000*
Less than 30 days	**15,717**	18,487
31-90 days	**29,117**	22,722
Over 90 days	**3,386**	2,147
	48,220	43,356

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. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The remaining receivables have been grouped based on the nature of customer accounts, shared credit risk characteristics and the days past due to provide the expected credit losses.

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

	2019	2018
	HK$'000	*HK$'000*
At 1 January	**2,310**	2,991
Provision for impairment of trade receivables *(Note 6)*	**1,875**	2
Receivables written off during the year as uncollectible	**(1,734)**	(602)
Exchange difference	**–**	(81)
At 31 December	**2,451**	2,310

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	
	2019	2018
	HK$'000	*HK$'000*
HK$	**42,404**	38,011
RMB	**5,816**	5,345
	48,220	43,356

13 SHARE CAPITAL

	Number of shares	**Nominal value of ordinary shares**
		HK$'000
Authorised:		
At 31 December 2018 and 31 December 2019	1,000,000,000	10,000

	Number of shares	**Nominal value of ordinary shares**
		HK$'000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	655,944,000	6,559

14 TRADE PAYABLES

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Trade payables	**34,720**	40,450

As at 31 December 2019, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**17,426**	18,826
31 to 60 days	**9,398**	14,538
61 to 90 days	**4,563**	4,355
Over 90 days	**3,333**	2,731
	34,720	40,450

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

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
HK$	**20,019**	18,018
RMB	**14,701**	22,432
	34,720	40,450

15 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Accruals for employee benefit expenses	**17,106**	20,118
Provision for restructuring costs	**–**	13,051
Accruals for marketing and promotional expenses	**1,959**	1,550
Accruals for sales rebate	**3,216**	2,252
Rental and related expenses payable	**3,479**	4,601
Office and utilities expenses payable	**2,869**	2,637
Deferred revenue	**2,693**	1,626
Consideration payable for property, plant and equipment acquired	**8,359**	2,983
Accruals for transportation and delivery charges	**4,639**	4,411
Accruals for audit fee	**3,106**	2,616
Other accruals and other payables	**17,301**	15,654
	64,727	71,499

15 ACCRUALS AND OTHER PAYABLES (CONTINUED)

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

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
HK$	**48,412**	46,353
RMB	**16,315**	25,146
	64,727	71,499

16 SUBSEQUENT EVENT

Since early 2020, the outbreak of the Coronavirus disease ("COVID-19") across the PRC and other countries has affected the Hong Kong retail segment and wholesale segment of the Group to some extent.

Although there is no material impact on the Group's sales performance, the Group is experiencing longer accounts receivable turnover time of its PRC customers and some have become overdue. Up to the date on which this set of financial statements were authorised for issue, the impacts of the COVID-19 outbreak on the Group's PRC customers' financial positions and macro-economic conditions as a whole are still uncertain and the Group is unable to quantify the related financial effects.

In addition, due to certain precautionary and control measures in response to the COVID-19 outbreak, the Group postponed the resumption of production in the PRC after the Chinese New Year holiday. It did not have material impact on the Group's production.

The Group will pay close attention to the development of the COVID-19 outbreak and perform further assessment of its impact and take relevant measures.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the financial year, both the global and Hong Kong markets faced difficult conditions owing to the protracted China-US trade negotiations. In addition, social instability further weighed on Hong Kong, which subsequently experienced an economic downturn in the second half year.

In spite of the aforementioned challenges, the Group was able to record revenue growth from the Hong Kong retail business, which rose by 4.2%. The upturn clearly proves that the Hung Fook Tong brand possesses strong appeal among local consumers. Such increase was, however, offset by a decline experienced by the wholesale business, both in Hong Kong and Mainland China. As a consequence, the Group's revenue for the continuing operations slightly decreased by 1.0% to HK$775.8 million (2018: HK$783.4 million). Yet, gross profit for the continuing operations climbed by 2.6% to HK$488.7 million (2018: HK$476.3 million) owing to the stable performance of the Hong Kong retail operation, which was bolstered by the effective management of production costs. Correspondingly, gross profit margin for the continuing operations reached 63.0% (2018: 60.8%). As a result of higher segment profit from the Hong Kong retail business, the termination of retail operations in Mainland China, which was in a loss-making position, as well as less one-off expenses incurred due to the relocation of production facilities from Shenzhen City (Guanlan and Dongguan) and Suzhou City to Kaiping City compared with 2018, profit attributable to owners of the Company for 2019 increased by 6.8% to HK$10.0 million (2018: HK$9.4 million).

It is worth noting that the new facilities in Kaiping City, Guangdong, became fully operational in the second quarter of 2019, thus expanding the Group's production capacity. With its high level of automation, the management trusts that the Kaiping plant will help lower production costs for the Group in the coming years.

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

The Hong Kong retail business continued to be the largest revenue contributor of the Group during the financial year. The operation generated HK$581.1 million (2018: HK$557.9 million) in segment revenue – a year-on-year increase of 4.2%, and accounted for 74.9% of total revenue. The rise was due to satisfactory growth achieved during the first three quarters of the financial year, which was able to offset a sales decline in the fourth quarter as a result of shortened business hours for certain shops due to social activities. Same-store sales growth was achieved, in part, from favourable demand for the Group's Joyous Series (自家喜慶系列) products. In particular, Organic Chicken Essence (有機滴雞精) achieved high double-digit sales growth, while an expanded product range that now includes rice water (自家米水) and Herbal Extract Drink (補氣美肌飲) provided added sales momentum. Yet other contributing factors include price adjustments made to certain products during the first half year, as well as a notable increase in coupon sales and redemptions, owing to online retailers and sales derived from the Group's participation in various trade expositions. Further adding to retail business growth was revenue from Handmade Bakery (嚐麥手作) that the Group acquired in April 2019, which operated two shops as at the end of the financial year. It is worth noting that segment profit rose as well, climbing to HK$81.1 million (2018: HK$74.6 million), up 8.7% year-on-year, attributed to higher revenue and gross profit margin, the latter resulting from the effective control of production costs.

During the financial year, the Group opened nine new shops – five in shopping centres and four at MTR stations. The openings have enabled the Group to protect its position as the largest herbal retailer in Hong Kong based on retail network size: totalling 115 self-operated shops as at 31 December 2019.

In view of a weakened retail market in the second half year, especially in the last quarter, the Group negotiated with a number of landlords, which resulted in modest adjustments in rent. As the Group observed high brand loyalty among the members of its JIKA CLUB loyalty program ("**JIKA CLUB**"), it also focused its marketing efforts on membership promotions, via the use of attractive trial offers, mobile push notifications, etc. that led to good sales conversions. A new version of the JIKA CLUB mobile application was launched that resulted in an upswing in subscriptions of digital membership cards. Consequently, JIKA CLUB experienced a rise in memberships, expanding its reach to over 924,000 members as at 31 December 2019, or an increase of approximately 97,000 members during the year. In fact, there was also an increase in average spending per member despite generally weak retail sentiment.

The Group has also been able to reach customers at home and at work via the Hung Fook Tong Online ("**HFT Online**") e-commerce platform, which earned the "Quality E-Shop" designation from the Hong Kong Retail Management Association ("**HKRMA**") in 2019 – the third consecutive year, as well as through its partnership with foodpanda – a major online food delivery service, thus enabling the Group to capitalise on the rising trend towards takeaway food. Still other means of reaching customers have included the operation of 17 HUNG+ Smart Vendor machines as at 31 December 2019, which are located in commercial buildings and residential estates.

Wholesale

The wholesale operation experienced a decline in revenue of 13.7% to HK$194.7 million (2018: HK$225.5 million), due to lower sales in both the Hong Kong and Mainland China markets. Segment loss amounted to HK$4.9 million (2018: profit of HK$4.4 million), which can be attributed to a decline in segment results from the Hong Kong wholesale operation – the product of lower revenue against higher selling and administration expenses. Loss from the Mainland China wholesale business enlarged due to the suspension of business ties with a number of the Group's key accounts arising from social activities in Hong Kong.

Hong Kong

In Hong Kong, the wholesale business generated revenue of HK$135.0 million (2018: HK$136.6 million), which was down 1.2% year-on-year, due primarily to lower revenue from a couple of key accounts. Subsequent to July 2019, the orders from such accounts returned to normal levels. Despite the dip, the Group has for the 17th consecutive year preserved its top position in the Hong Kong Wellness Drink Category, according to Nielsen, with 27.8% market share based on sales value and 37.8% market share based on sales volume (litre).

Contributing to the Group's market leadership is an expanded sales channel that now includes ties with a popular health and beauty chain store. In addition, the availability of the Group's fresh drink products such as Golden Milk Tea (金裝奶茶) and The Deluxe Series (甘露系列) at certain grocery stores and restaurants have further contributed to the Group's strong market position. To maintain its dominance, the Group has introduced even more new drink flavours, including Passion Fruit with Honey Drink (百香果蜜), Begonia Fimbristipula Hance Drink (紫背天葵) featuring LINE FRIENDS packaging, and Sparkling Drinks series (氣泡飲系列). Furthermore, frozen seafood and snacks have been launched at supermarkets and convenience stores, which include Frozen Cod Fish Ball (深海鱈魚丸), Frozen Cod Fish Tofu (深海鱈魚豆腐) and Salmon Fish Skin (挪威三文魚皮).

Mainland China

With respect to the Mainland China wholesale business, it contributed HK$59.7 million (2018: HK$88.9 million) in revenue, down 32.8% year-on-year. The decline was mainly due to the severing of business ties with the majority of key accounts owing to social activities in Hong Kong, though by the end of the year, certain drink products were still available at certain general stores and gas stations mainly in Southern China via distributors of the Group. In view of developments in the country, the Group initiated a restructuring exercise for its offices. Consequently, it now operates one office, located in Guangzhou, which will allow the Group to save both operational and management costs.

Other markets

With respect to the wholesale business in Vietnam, the Group introduced four flavours of drinks to local convenience stores during the financial year, including American Ginseng with Honey Drink (花旗蔘蜜) and Imperatae Cane Drink (竹蔗茅根). In Taiwan, the Group introduced Iced Milk Tea (港式奶茶) and Yuan Yang (港式鴛鴦) to FamilyMart convenience stores during the second half year. Owing to favourable market response, driven in part by successful social media promotions, sales in Taiwan improved when compared with the preceding year. As for the US and Malaysia markets, higher import duties or sugar taxes imposed on the Group's products in both countries impacted negatively on sales.

Discontinued Operation

With the cessation of all retail operations in Mainland China in December 2018, no revenue or profit/loss was recorded from this segment in 2019 (2018: revenue of HK$7.7 million and segment loss of HK$4.4 million). The Group has subsequently been able to better allocate and focus its human, financial and operational resources on other operating segments.

Production Capability

The Tai Po production plant in Hong Kong has maintained a high level of food safety management, as reflected by its ability to renew the ISO22000, Hazard Analysis Critical Control Point ("**HACCP**") and Good Manufacturing Practices ("**GMP**") accreditations, all of which were certified by Accredited Certification International Limited in 2019. With food safety in mind, certain pipelines and cold storage facilities have been upgraded.

Aside from ensuring food safety, production processes have been streamlined. Consequently, new packaging for certain products now require less manpower, while wastage has been reduced as well.

With respect to the plant in Kaiping City, Guangdong, it became fully operational in the second quarter of 2019. Featuring four highly automated production lines dedicated to fresh and long-shelf life drinks, the Kaiping facility will be capable of supporting demand from the Mainland China market. Similar to its Tai Po counterpart, the facility meets stringent quality controls, and secured both the ISO22000 and HACCP accreditations in May 2019. In view of growing concerns about the Coronavirus disease, the Group will closely monitor developments and continue to uphold its very stringent standards towards food safety and hygiene.

PROSPECTS

According to HKRMA, total retail sales value is projected to experience a year-on-year decline of between 30% and 50% for the first half of 2020, owing to the outbreak of the Coronavirus disease. The Group expects a highly challenging year ahead for Hong Kong retailers. While the Group will carefully protect its financial wellbeing, the management is well aware that the health and wellbeing of customers and staff at its shops, factories and offices take precedence, and will implement relevant measures to ensure their safety. The management is confident that with the indomitable spirit of customers, business partners, staff and general public, both the Group and society will weather these difficult times.

Hong Kong Retail

Despite the expected headwinds, the management remains committed to maintaining the Group's leadership in the Hong Kong retail market. Towards this objective, it will employ flexible network management, which includes the judicious opening of several new shops in 2020. Already, two shops opened at Hin Keng Station and Nam Cheong Station during the first quarter of the new financial year. Also, the shop network and manpower will be optimised in line with market developments. Going further, the Group will seek to negotiate with landlords given the fact that rental rates have been softening, particularly in instances where lease renewals are approaching, thus keep such expenditures on a tight rein.

In view of growing public concern over health and hygiene amidst the outbreak of the Coronavirus disease, the Group recognises the need to remind its customers of the benefits and importance of a healthy diet. Communications will therefore focus on guiding customers and members on how to strengthen their health, including their immune system, with the Group's nutritious herbal drinks, soups and food products. The Group has launched the new "Detox and Heat Relief Drink (清肺解毒飲)" in the first half 2020 financial year, and the Group will have new product launches for expanding the Joyous Series to provide customers with more options for protecting their health.

With regard to sales channels, online platforms and delivery service are expected to become even more popular as the public shift their shopping behaviour towards online, driven in part by the current social and economic climate. The Group will therefore allocate more resources on these methods.

Yet another aspect of the retail business to be developed will involve the partnership of the Group with Handmade Bakery. Since the acquisition of the first Handmade Bakery shop in April 2019 and the opening of the first "Hung Fook Tong x Handmade Bakery" concept shop in December 2019, the Group has been seeking more expansion opportunities, including leveraging the trend towards light meal options complemented with soups and pastries.

Given the importance of the Group's corporate customers and resellers, as well as its many loyal JIKA CLUB members, more effort will be placed on promoting e-coupons along with further enhancing the JIKA CLUB mobile application, which features a digital membership card for encouraging "paperless" shopping. The Group will also explore opportunities for joint promotions with various merchants, so as to continue expanding its customer and membership base.

Wholesale

With reference to the Hong Kong wholesale business, the Group will offer customers an even greater array of snack and frozen food options. What is more, new packaging will be presented through selected drink products, thus stimulating not only customers' sense of taste, but also their sight. Mindful of the importance of increasing the Group's market exposure, the management will explore joint promotions as well as expand the Group's sales channels across the city.

Regarding the Mainland China market, the Group will in the coming half year seek to stabilise sales by leveraging its local distributors. At the same time, it will endeavour to resume business ties with certain key accounts, and particularly with major convenience chain store operators in Guangzhou and Shanghai during the first phase of product launches.

As regards the Group's other markets, the management plans to introduce fresh drink products specifically to Malaysia and Singapore, while for the Taiwan market, a promotion on Iced Milk Tea will be launched for the summer season to boost sales. In addition, efforts will be made towards tapping new markets such as South Korea.

CONCLUSION

Given the Group's leadership in the wellness food and beverage industry, ample business experience and in-depth understanding of consumer needs, as well as the steadfast support from stakeholders across industries and society, the Group possesses the essential underpinnings that will allow it to confidently face the difficult year ahead.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue for the continuing operations amounted to HK$775.8 million, representing a decrease of 1.0% from HK$783.4 million in 2018.

Revenue from Hong Kong retail operation has increased to HK$581.1 million, representing an increase of 4.2% from HK$557.9 million in 2018 as a result of stable same-store sales growth partly resulting from the sales of products from the Joyous Series, as well as an increase in coupon sales via different online resellers and corporate partners. However, revenue arising from the wholesale business decreased to HK$194.7 million, representing a decrease of 13.7% from HK$225.5 million in 2018 due to lower sales from both the Hong Kong and Mainland China wholesale markets.

Cost of Sales

For the year ended 31 December 2019, the Group's cost of sales for the continuing operations amounted to HK$287.1 million, representing a decrease of 6.5% from HK$307.0 million in 2018. As a percentage of revenue, cost of sales represented 37.0% and 39.2% in 2019 and 2018 respectively.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2019, the Group's gross profit for the continuing operations amounted to HK$488.7 million, representing an increase of 2.6% from HK$476.3 million in 2018. The Group's gross profit margin increased by 2.2 percentage points to 63.0% as compared to 60.8% in 2018 due to effective implementation of cost control measures.

Staff Costs

For the year ended 31 December 2019, the Group's staff costs for the continuing operations, excluding termination benefits as a result of the relocation of the production plants during the year, amounted to HK$238.9 million, representing an increase of 4.1% from HK$229.5 million in 2018. The staff costs-to-revenue ratio for the continuing operations is 30.8% as compared to 29.3% in 2018.

Rental Expenses

For the year ended 31 December 2019, the Group's rental expenses in relation to its retail shops in Hong Kong (being the aggregate of lease rental in respect of retail outlets, depreciation of right-of-use assets for shop properties and the interest expense arised from lease liabilities) amounted to HK$105.2 million, representing a decrease of 1.1% from HK$106.3 million in 2018. Rental expenses-to-Hong Kong Retail revenue ratio is 18.1% as compared to 19.1% in 2018.

Advertising and Promotion Expenses

For the year ended 31 December 2019, the Group's advertising and promotion expenses for the continuing operations amounted to HK$33.6 million, representing an increase of 10.7% from HK$30.4 million in 2018. This accounted for 4.3% and 3.9% of revenue for the continuing operations in 2019 and 2018 respectively.

Depreciation and Amortisation

For the year ended 31 December 2019, the depreciation of property, plant and equipment and amortisation of leasehold land and land use rights for the continuing operations of the Group amounted to HK$29.6 million, representing an increase of 0.1% from HK$29.5 million in 2018. This accounted for 3.8% of revenue for the continuing operations in both 2019 and 2018.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2019 was HK$10.0 million, representing an increase of 6.8% from HK$9.4 million in 2018. The net profit margin (calculated as profit for the year as a ratio of revenue) for year ended 31 December 2019 was 1.3%, as compared to 1.1% in 2018.

Earnings per share for profit attributable to owners of the Company for the year ended 31 December 2019 amounted to HK1.53 cents, as compared to HK1.43 cents in 2018.

Capital Expenditure

During the year ended 31 December 2019, capital expenditure amounted to HK$53.0 million. This amount was used mainly for the opening of new shops, revamping of existing retail shops, acquisition of production facilities in Mainland China and Tai Po plants, and construction of the production plant in Kaiping, Mainland China.

Liquidity and Financial Resources Review

As at 31 December 2019, the Group had bank deposits and cash balance amounted to HK$95.4 million (31 December 2018: HK$128.4 million).

As at 31 December 2019, the gearing ratio of the Group was 0.34 (31 December 2018: 0.35), which was calculated based on total bank borrowings divided by equity attributable to owners of the Company.

As at 31 December 2019, the Group had total banking facilities of HK$137.8 million (31 December 2018: HK$134.5 million) of which HK$94.9 million (31 December 2018: HK$95.8 million) had been utilised.

As at 31 December 2019, the Group's current liabilities exceeded its current assets by HK$142.9 million (31 December 2018: HK$50.1 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons to customers in Hong Kong of HK$156.3 million (31 December 2018: HK$145.1 million) which will reduce gradually over the time of each redemption by customers and are not expected to be settled by cash under normal business circumstances, and current lease liabilities of HK$82.3 million (31 December 2018: Nil) recognized pursuant to the adoption of HKFRS 16 "Leases" on 1 January 2019. Excluding the aforementioned receipts in advance and lease liabilities, the Group would have net current assets of HK$95.7 million (31 December 2018: HK$95.0 million) and current ratio of 1.66 (31 December 2018: 1.60).

We aim at maintaining flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable us to continue our business in a manner consistent with the short-term and long-term financial strategies of the Group.

Foreign Currency Risk

Our Group operates mainly in Hong Kong and Mainland China and conducts our business primarily in Hong Kong dollars and Renminbi. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi dollar. The Group will continue to take proactive measures and monitor closely of its exposure to such currency movement.

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments as at year ended 31 December 2019.

Contingent Liabilities

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 2019, the Group employed approximately 979 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 2019, various training activities, such as orientation on retail shop and back office operations, customer services and sales skills, product knowledge 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 production talents, enhancing the leadership skills of the participants including their professional and managerial techniques as well as their knowledge in machinery monitoring and production processes.

OTHER INFORMATION

Dividends

A final dividend in respect of the year ended 31 December 2019 of HK0.46 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 HK0.38 cent per ordinary share. The proposed final and special dividends, amounted to a total of HK$5,510,000 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 2020.

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, 10 July 2020 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Monday, 15 June 2020.

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM to be held on Friday, 5 June 2020, the register of members of the Company will be closed from Tuesday, 2 June 2020 to Friday, 5 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 1 June 2020.

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, 12 June 2020 to Monday, 15 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 11 June 2020.

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 2019.

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 2019, 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 2019.

Audit Committee

The Company has established an audit committee (the "**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.

The Group's annual results for the year ended 31 December 2019 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 2019 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 2019 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, 25 March 2020

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.