HUNG FOOK TONG GROUP HOLDINGS LIMITED
鴻福堂集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1446)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 ("**1H2020**") decreased by 11.7% to HK$345.2 million, when compared with HK$390.9 million for the six months ended 30 June 2019 ("**1H2019**").

  – Revenue from the Hong Kong retail business decreased by 6.6% to HK$276.9 million (1H2019: HK$296.5 million), with a retail network comprising 115 self-operated shops in Hong Kong as at 30 June 2020.

  – Revenue from the wholesale business decreased by 27.7% to HK$68.2 million (1H2019: HK$94.4 million).

- Gross profit for 1H2020 decreased by 8.3% to HK$222.4 million (1H2019: HK$242.7 million), while gross profit margin for 1H2020 increased by 2.3 percentage points to 64.4% (1H2019: 62.1%).

- Profit attributable to owners of the Company for 1H2020 increased by 355.8% to HK$23.0 million (1H2019: HK$5.1 million).

- Earnings per share for profit attributable to owners of the Company for 1H2020 was HK3.51 cents (1H2019: HK0.77 cent).

- The Board declared a special dividend in respect of the year ending 31 December 2020 of HK0.90 cent per ordinary share (1H2019: nil).

INTERIM RESULTS

The board of directors (the "**Board**") of Hung Fook Tong Group Holdings Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2020 together with comparative figures for the corresponding period in 2019.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		(Unaudited)	
		Six months ended 30 June	
		2020	2019
	Note	***HK$'000***	*HK$'000*
Revenue	*3,4*	**345,172**	390,903
Cost of sales	*5*	**(122,739)**	(148,216)
Gross profit		**222,433**	242,687
Other income, net	*4*	**10,393**	1,538
Selling and distribution costs	*5*	**(33,901)**	(43,146)
Administrative and operating expenses	*5*	**(165,714)**	(192,132)
Impairment on trade receivables	*5*	**(790)**	–
Operating profit		**32,421**	8,947
Finance income		**25**	38
Finance costs		**(3,947)**	(2,466)
Finance costs, net		**(3,922)**	(2,428)
Share of losses of joint ventures accounted for using the equity method		**(15)**	(50)
Profit before income tax		**28,484**	6,469
Income tax expense	*6*	**(5,158)**	(1,345)
Profit for the period		**23,326**	5,124
Profit attributable to:			
Owners of the Company		**23,043**	5,055
Non-controlling interests		**283**	69
		23,326	5,124

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		(Unaudited) Six months ended 30 June	
		2020	2019
	Note	***HK$'000***	*HK$'000*
Other comprehensive loss:			
Item that may be reclassified to profit or loss			
– Currency translation differences		**(3,577)**	(400)
Other comprehensive loss, net of tax		**(3,577)**	(400)
Total comprehensive income for the period		**19,749**	4,724
Total comprehensive income attributable to:			
Owners of the Company		**19,503**	4,676
Non-controlling interests		**246**	48
		19,749	4,724
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted (HK cent per share)	*7*	**3.51**	0.77

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	**As at 30 June 2020** *HK$'000* **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**301,794**	309,148
Right-of-use assets		**201,847**	204,016
Investments in joint ventures		**40**	55
Prepayments and deposits		**26,309**	28,486
Deferred income tax assets		**2,435**	7,594
		532,425	549,299
Current assets			
Inventories		**45,585**	43,768
Trade receivables	*10*	**54,149**	48,220
Prepayments, deposits and other receivables		**47,592**	50,806
Amount due from a related company		**690**	690
Tax recoverable		**1,003**	986
Cash and cash equivalents		**107,417**	95,353
		256,436	239,823
Total assets		**788,861**	789,122
EQUITY			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Reserves		**284,628**	265,125
		291,187	271,684
Non-controlling interests		**329**	83
Total equity		**291,516**	271,767

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2020

	Note	**As at 30 June 2020** ***HK$'000*** **(Unaudited)**	As at 31 December 2019 *HK$'000* (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**76,111**	71,124
Provision for reinstatement costs		**4,892**	4,495
Deferred income tax liabilities		**92**	93
Bank borrowings		**44,603**	58,879
		125,698	134,591
Current liabilities			
Trade payables	*11*	**36,582**	34,720
Accruals and other payables		**56,831**	64,727
Provision for reinstatement costs		**2,818**	2,859
Receipts in advance		**157,945**	162,044
Lease liabilities		**85,707**	82,333
Bank borrowings		**30,422**	34,732
Tax payable		**1,342**	1,349
		371,647	382,764
Total liabilities		**497,345**	517,355
Total equity and liabilities		**788,861**	789,122
Net current liabilities		**(115,211)**	(142,941)
Total assets less current liabilities		**417,214**	406,358

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Hung Fook Tong Group Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 10 January 2014 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together the "**Group**") are principally engaged in the retail, wholesale and distribution of bottled drinks, other herbal products, soups and snacks in Hong Kong and other parts of the People's Republic of China ("**PRC**" for the purpose of this condensed consolidated interim financial information) (the "**Business**").

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

These unaudited condensed consolidated interim financial information (the "**interim financial information**") are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated. These unaudited interim financial information has been approved for issue by the Board of Directors on 24 August 2020.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The Group's current liabilities exceeded its current assets by HK$115,211,000 as at 30 June 2020 (31 December 2019: HK$142,941,000). The directors of the Company have reviewed the Group's cash flow projections, which covers a period of 12 months from 30 June 2020. 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 12 months from 30 June 2020. Accordingly, these condensed consolidated interim financial information have been prepared on a going concern basis.

2.2 Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

2.2.1 Government grants

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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

2.2 Summary of significant accounting policies (Continued)

2.2.2 Adoption of new accounting policy in the current interim period

(a) Amended standards adopted by the Group

The following amendments to existing standards are effective to the Group for accounting periods beginning on or after 1 January 2020 but did not result in any significant impact on the results and financial position of the Group.

HKAS 1 and HKAS 8 (Amendment)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting
HKFRS 3 (Amendment)	Definition of Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

(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 2020 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 16 (Amendment)	COVID-19-Related Rent Concessions	1 January 2021
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

The Group will adopt the above new and amended standards when they become effective. The Group is in the process of assessing the impact of adoption of such new and amended standards on the Group's results and financial position.

3 SEGMENT INFORMATION

Management has identified two reportable segments based on the Group's business model, namely the (1) Hong Kong Retail and (2) Wholesale.

Segment assets consist primarily of property, plant and equipment, right-of-use assets, inventories, trade receivables, prepayments, deposits and other receivables and cash and cash equivalents. They exclude deferred income tax assets, amount due from a related company, investments in joint ventures, tax recoverable and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment for the six months ended 30 June 2020 and 2019.

Unallocated corporate expenses, relocation of factories related expenses, share of losses of joint ventures accounted for using the equity method, finance income and costs and income tax expense are not included in segment results.

The segment information provided to the executive directors for the six months ended 30 June 2020 and 2019 are as follows:

	(Unaudited) Six months ended 30 June 2020		
	Hong Kong Retail *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**281,546**	**70,122**	**351,668**
Less: Inter-segment revenue	**(4,601)**	**(1,895)**	**(6,496)**
Revenue from external customers	**276,945**	**68,227**	**345,172**
Segment results	**56,633**	**519**	**57,152**
Corporate expenses			**(24,731)**
Share of losses of joint ventures accounted for using the equity method			**(15)**
Finance costs, net *(Note)*			**(3,922)**
Profit before income tax			**28,484**
Income tax expense			**(5,158)**
Profit for the period			**23,326**
Other segment items:			
Capital expenditure	**4,406**	**7,433**	**11,839**
Depreciation and amortisation	**57,678**	**6,017**	**63,695**
Loss on disposal of property, plant and equipment	**13**	**–**	**13**
Provision for impairment on trade receivables	**790**	**–**	**790**

3 SEGMENT INFORMATION (CONTINUED)

	(Unaudited) Six months ended 30 June 2019		
	Hong Kong Retail HK$'000	Wholesale HK$'000	Total HK$'000
Segment revenue	299,734	94,686	394,420
Less: Inter-segment revenue	(3,235)	(282)	(3,517)
Revenue from external customers	296,499	94,404	390,903
Segment results	43,324	(4,474)	38,850
Corporate expenses			(27,402)
Relocation of factories related expenses			(2,501)
Share of losses of joint ventures accounted for using the equity method			(50)
Finance costs, net *(Note)*			(2,428)
Profit before income tax			6,469
Income tax expense			(1,345)
Profit for the period			5,124
Other segment items:			
Capital expenditure	7,446	21,239	28,685
Depreciation and amortisation	45,031	3,491	48,522
Gain on disposal of property, plant and equipment	(28)	(501)	(529)

Note:

Finance costs included interest expenses arisen from lease liabilities of HK$2,197,000 (2019: HK$1,675,000).

3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2020 and 31 December 2019 are as follows:

	Hong Kong Retail *HK$'000*	**Wholesale** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
As at 30 June 2020 (Unaudited)				
Segment assets	**496,161**	**279,487**	**(2,980)**	**772,668**
Amount due from a related company				**690**
Investments in joint ventures				**40**
Tax recoverable				**1,003**
Deferred income tax assets				**2,435**
Corporate assets				**12,025**
Total assets				**788,861**
As at 31 December 2019 (Audited)				
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

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

4 REVENUE AND OTHER INCOME, NET

The Group's revenue and other income, net recognised during the six months ended 30 June 2020 and 2019 are as follows:

	(Unaudited) Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**328,706**	376,688
Revenue recognised upon expiry of pre-paid coupons and cards	**16,466**	14,215
	345,172	390,903
Other income, net		
Government grants *(Note)*	**9,600**	–
Service income	**485**	133
Insurance claim	**39**	504
Exchange differences	**(332)**	139
(Losses)/gain on disposal of property, plant and equipment	**(13)**	529
Others	**614**	233
	10,393	1,538

Note:

Government subsidies of HK$9,600,000 were granted from the one-off Retail Sector Subsidy Scheme and Food Licence Holders Subsidy Scheme under Anti-Epidemic Fund launched by the Government of the Hong Kong Special Administrative Region. The Group has complied all attached conditions before 30 June 2020 and recognised in profit or loss in "other income, net".

Wage subsidies of HK$5,074,000 granted from the Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees from June to August 2020 has been received during the six months ended 30 June 2020. The amounts of HK$851,000 and HK$840,000 were recognised in "cost of sales" and "administrative and operating expenses" respectively and had been offset with the employee benefit expenses. The remaining amount of HK$3,383,000 was recognised as deferred government grants.

5 EXPENSES BY NATURE

	(Unaudited) Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Cost of inventories sold	**94,237**	113,826
Lease rental in respect of retail outlets *(Note)*		
– Minimum rental	**–**	16,874
– Contingent rental	**150**	167
Lease rental in respect of storage spaces and office premises *(Note)*	**4,981**	10,818
Advertising and promotional expenditure	**13,133**	15,635
Depreciation of property, plant and equipment	**16,590**	13,788
Depreciation of right-of-use assets	**47,105**	34,734
Communication and utilities	**12,317**	15,927
Employee benefit expenses (including directors' emoluments)	**101,651**	123,946
Provision for impairment on trade receivables	**790**	–
Legal and professional fees	**3,782**	4,106
Tools, repair and maintenance expenses	**5,076**	4,749
Transportation and distribution expenses	**13,661**	17,780
Others	**9,671**	11,144
Total cost of sales, selling and distribution costs and administrative and operating expenses	**323,144**	383,494

Note: These expenses included short-term leases expenses of HK$609,000 (2019: HK$21,221,000), variable lease payment expenses of HK$845,000 (2019: HK$1,825,000) and other rental-related expenses of HK$3,677,000 (2019: HK$4,813,000) for the six months ended 30 June 2020.

6 INCOME TAX EXPENSE

Hong Kong Profits Tax and PRC Corporate Income Tax ("CIT") have been provided at the rate of 16.5% and 25%, respectively (2019: 16.5% and 25% respectively).

The amount of income tax expense charged to the condensed consolidated interim statement of comprehensive income represents:

	(Unaudited) Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current income tax		
– Under-provision in prior years	**–**	6
Deferred income tax	**5,158**	1,339
Income tax expense	**5,158**	1,345

7 EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June **2020**	2019
Profit attributable to owners of the Company (HK$'000)	**23,043**	5,055
Weighted average number of ordinary shares for the calculation of basic and diluted earnings per share (thousands)	**655,944**	655,944
Earnings per share for profit attributable to owners of the Company		
– Basic earnings per share (HK cent)	**3.51**	0.77
– Diluted earnings per share (HK cent)	**3.51**	0.77

(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 period.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted earnings per share for the six months ended 30 June 2020 and 2019 equal basic earnings per share as there were no outstanding share options as at both period ends.

8 DIVIDENDS

	(Unaudited) Six months ended 30 June **2020** ***HK$'000***	2019 *HK$'000*
Proposed dividend		
Special dividend in respect of the financial year ending 31 December 2020 of HK0.90 cent (2019: nil) per ordinary share	**5,903**	–

A special dividend in respect of the year ending 31 December 2020 of HK0.90 cent per ordinary share, amounting to a total dividend of HK$5,903,000 was approved by the Board of Directors on 24 August 2020. This special dividend is not reflected as dividend payable in the condensed consolidated interim statement of financial position, but will be recognised in shareholders' equity for the year ending 31 December 2020.

9 PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June **2020** ***HK$'000***	2019 *HK$'000*
At 1 January	**309,148**	288,562
Acquisition of a subsidiary	**–**	754
Additions	**11,839**	28,685
Disposals	**(97)**	(1,508)
Depreciation	**(16,590)**	(13,788)
Exchange difference	**(2,506)**	(247)
At 30 June	**301,794**	302,458

Depreciation of HK$6,396,000 (2019: HK$4,154,000) has been charged in 'cost of sales', HK$10,194,000 (2019: HK$9,634,000) in 'administrative and operating expenses' for the six months ended 30 June 2020.

10 TRADE RECEIVABLES

	As at 30 June 2020 HK$'000 (Unaudited)	As at 31 December 2019 HK$'000 (Audited)
Trade receivables	**57,390**	50,671
Less: Provision for impairment on trade receivables	**(3,241)**	(2,451)
	54,149	48,220

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade receivables, based on invoice date, are as follows:

	As at 30 June 2020 HK$'000 (Unaudited)	As at 31 December 2019 HK$'000 (Audited)
Less than 30 days	**21,696**	15,717
31 – 90 days	**25,322**	29,117
Over 90 days	**7,131**	3,386
	54,149	48,220

11 TRADE PAYABLES

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade payables, based on invoice date are as follows:

	As at 30 June 2020 HK$'000 (Unaudited)	As at 31 December 2019 HK$'000 (Audited)
0 – 30 days	**24,822**	17,426
31 – 60 days	**8,413**	9,398
61 – 90 days	**1,952**	4,563
Over 90 days	**1,395**	3,333
	36,582	34,720

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2020 ("**1H2020**"), both the Hong Kong and Mainland China retail and wholesale markets were battered by the combination of the COVID-19 outbreak, China-United States trade frictions and global economic slowdown. The Group's retail and wholesale performance was inevitably affected by such developments, as well as a decline in Mainland China wholesale revenue due to the severing of business ties with key accounts owing to social movements in Hong Kong. As a consequence, the Group's revenue contracted by 11.7% to HK$345.2 million (for the six months ended 30 June 2019 ("**1H2019**"): HK$390.9 million). Despite of this, the single-digit decline in sales from the Group's Hong Kong retail business is still lower than the average decline experienced by many other retailers in the city, with total retail sales value estimated to have dropped by 33.3% in Hong Kong in 1H2020 when compared with 1H2019, according to the Census and Statistics Department. The reason for such resilience can be attributed to the Group's successful efforts in introducing more high-quality and healthy products that were able to allay public concerns over personal health and wellness, and its prompt expansion of sales channels to more online platforms and delivery services, leveraging Hung Fook Tong's strong brand equity.

Gross profit has expectedly declined, down by 8.3% to HK$222.4 million (1H2019: HK$242.7 million), due mainly to weaker top-line performance. However, benefitting from an improvement in the sales mix, continuous enhancement in supply chain management, and depreciation of the Renminbi (RMB) which led to a decline in production costs at the plant in Kaiping City, Guangdong, gross profit margin rose to 64.4% (1H2019: 62.1%). Moreover, due to a decrease in selling and administrative expenses resulting from the implementation of cost saving measures covering rent and labour since late 2019 in response to the challenging Hong Kong retail environment brought by social movements; as well as the receipt of certain government grants and subsidies, profit attributable to owners of the Company has risen significantly by 355.8% to HK$23.0 million (1H2019: HK$5.1 million).

In view of the sound fundamentals of the Group, the Board has resolved to declare a special dividend in respect of the year ending 31 December 2020 of HK0.90 cent per ordinary share (1H2019: nil). The Group remains in a healthy financial position, and has stable operating cash flows. It also holds sufficient cash and cash equivalent as well as unutilised banking facilities, amounting to approximately HK$107.4 million and HK$72.7 million, respectively, as at 30 June 2020 (31 December 2019: HK$95.4 million and HK$42.9 million, respectively).

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

The Hong Kong retail operation has remained the largest revenue contributor of the Group, generating HK$276.9 million (1H2019: HK$296.5 million) in revenue in 1H2020 – down by 6.6% year-on-year, and accounting for 80.2% of total revenue. The decline was largely due to social distancing measures implemented by the Hong Kong Government in the wake of COVID-19, which led to school closures, adoption of work-from-home arrangements by government departments and companies, and less contact among the general public, consequently resulting in lower customer traffic and fewer transactions. Furthermore, the cancellations and postponements of exhibitions in the city have impacted on revenue derived from the operation of associated booths by the Group. More favourably, revenue from JIKA CLUB (自家CLUB) rose due to an increase in average transaction value per member, which partly offset the decrease in traffic. Despite the revenue drop, segmental profit climbed 30.7% to HK$56.6 million (1H2019: HK$43.3 million), which was attributed to the effective cost control of raw materials; concessions from certain landlords resulting in more affordable rental rates; more streamlined workforce; and receipt of government grants and subsidies for assisting the retail sector and food licence holders totalling HK$9.6 million.

In response to a weak retail market in Hong Kong, the Group has acted quickly in maintaining a strong and resilient store network; opening two shops that are located at the West Rail Line and Tuen Ma Line Phase 1 (Hin Keng Station and Nam Cheong Station) respectively. By so doing, the Group has also maintained its standing as the largest herbal retailer in Hong Kong based on retail network size, with a total of 115 self-operated shops as at 30 June 2020 – and no shop closure related to the impact of the pandemic.

Recognising that online retailing and delivery services have become even more popular as "stay at home" and "working from home" have become the new normal in the wake of COVID-19, the Group has also allocated greater resources towards capitalising on such developments. This has included co-operating with foodpanda and Deliveroo food delivery platforms to offer a convenient way for customers to enjoy Hung Fook Tong products at home or at the office. Furthermore, the Group has offered bulk purchase delivery services to corporate clients, which saw a surge in demand, surpassing 1H2019 figures.

The Group has also sought to enhance engagement with loyalty members of JIKA CLUB, encouraging spending via top-up promotions and attractive discounts. Concurrently, it has sought to attract still more members, the success of such efforts is reflected by memberships totalling over 970,000 as at 30 June 2020, or an increase of around 48,000 members during the period. The increase can partly be attributed to the continuous enhancement of the Hung Fook Tong mobile application (APP), which also resulted in a rise in number of transactions via the APP and higher average spending per member.

In view of growing public concerns over health and hygiene amid the COVID-19 pandemic, the Group has recognised the need to also remind its own customers of the importance of a healthy diet to strengthen their health, and especially their immune system. Supporting this awareness, the Group has launched bulk-purchase offers covering its nutritious herbal drinks, soups and food products during the review period. Among the Group's offerings that received particularly favourable response and good sales growth have included soups and drinks with nourishing benefits. The Group has also launched the new "Detox & Heat Relief Soup (清肺解毒湯)" to widen customers' choices.

Similarly, the Joyous Series has been further expanded to provide customers with greater options for protecting their health. This has included the roll out of "Fish Essence (滴虱目魚精)", which is rich in collagen and proteins, hence particularly appropriate for those needing to strengthen their health, such as the elderly, individuals recovering from illness or surgery, and postnatal mothers.

With respect to the Group's HUNG+ Smart Vendor machines, all 17 were in operation in commercial buildings and residential estates as at 30 June 2020.

Wholesale

The wholesale segment experienced a decline in revenue of 27.7% to HK$68.2 million (1H2019: HK$94.4 million), dragged down by weaker sales from the Mainland China market, even though top-line sales in Hong Kong increased modestly. The segment nonetheless recorded a profit of HK$0.5 million (1H2019: loss of HK$4.5 million), which can be attributed to the surge in segmental results from the Hong Kong wholesale operation, resulting from higher revenue and higher gross profit as a result of RMB depreciation. Meanwhile, loss from the Mainland China wholesale business has narrowed due to less production expenses and effective restructuring exercises undertaken by its offices.

Hong Kong

Revenue from the Hong Kong wholesale business totalled HK$60.7 million (1H2019: HK$56.0 million), or an increase of 8.4% year-on-year. Aside from the lower base, as revenue from a couple of key accounts were lower in 1H2019, the local wholesale business recorded a significant increase in online sales which helped to partly offset the sales decline from key accounts and restaurants amid the epidemic. Among the expanded channels that the Group has employed to drive online sales included hksuning.com (蘇寧), Neigbuy.com (鄰住買), other smaller e-shops and online wholesale platforms. Furthermore, the new "Detox & Heat Relief Drink (清肺解毒飲)" was launched in response to COVID-19. Still other means of stimulating wholesale sales has included the introduction of new packaging featuring KAKAO FRIENDS as part of special edition drinks and premiums. Such products were made available via supermarkets, convenience stores and online shopping platforms. Unique delicacies have also been added to the wholesale business portfolio, such as Almond Cookies with Milkfish Floss (虱目魚鬆杏仁餅) imported from Taiwan that can be purchased through online platforms and department stores, and Korean Chicken Ginseng Soup (韓國人蔘雞湯) which is available via chain stores.

Mainland China

With regard to the Mainland China wholesale business, it was dealt a serious blow when the majority of key accounts elected to sever business ties in the second half of last year due to social movements in Hong Kong. In the aftermath, revenue has dropped by 80.4% to HK$7.5 million (1H2019: HK$38.4 million), though business ties with certain key accounts, particularly major convenience chain store operators in Southern China, have gradually been re-established. Consequently, in May and June of this year, certain fresh and long-shelf life bottled drinks have once again become available through a number of key accounts in Guangzhou, Dongguan, Shenzhen, etc., amounting to over 6,400 convenience stores in total. Furthermore, the Group's fresh and long-shelf life drinks have appeared on the shelves of grocery stores, schools, and gas stations via distributors operating mainly in Guangdong, Shanghai and Beijing. In total, nearly 20 SKUs have reappeared in Mainland China as at 30 June 2020, though COVID-19 has impacted on the scale of business that has been secured.

In view of business developments in Mainland China in 2019, the Group initiated a restructuring exercise for its offices last year. Consequently, it now operates one office, located in Guangzhou, which has allowed the Group to save both operational and management costs.

Other Markets

The Group's performance in other markets was invariably impacted as many local governments imposed lockdowns and social distancing policies in the wake of COVID-19. As a consequence, sales activities in countries such as the United States ("**US**"), Australia and Vietnam were either severely curtailed or suspended altogether. Compounding matters, in the US, higher import duties imposed on the Group's products due to Sino-US trade tensions further affected local sales. Though stiff headwinds are expected to continue in the second half year, the Group will continue to explore new business opportunities. Case in point, the Group was able to tap the Netherlands and Brazil markets in 1H2020, as public awareness of the health benefits of herbal drinks increased amid the COVID-19 pandemic.

Safety and Production Capability

Food safety and good hygiene have always been among the top priorities of the Group, and the pandemic has only helped reaffirm their importance. The Group has duly upheld stringent safety standards, including rigorous hygiene standards applicable to its shops, factories and workplaces, which are paramount for protecting the wellbeing of customers and staff alike. Although the epidemic resulted in slight delays in the resumption of the Group's factory in Kaiping City, Guangdong, after the Lunar New Year holiday, the factory largely resumed operation by early March. Consequently, the supply of fresh and long shelf-life drinks to Hong Kong, Mainland China and overseas markets resumed as planned. With regard to the Tai Po factory, it has followed ISO22000 and other food safety guidelines, with staff also observing such measures as wearing masks, washing hands regularly and sanitizing frequently. Aside from these precautionary steps, the Tai Po plant has also optimised Good Manufacturing Practice ("**GMP**") procedures to further strengthen quality assurance efforts.

PROSPECTS

The Group is fully aware that the pandemic is likely to persist in the second half year, and the retail and wholesale business environment will continue to present numerous challenges. The third wave of the COVID-19 outbreak in Hong Kong subsequent to the review period has brought more devastation; severely impacting both foot traffic and consumption sentiment. The management will therefore closely monitor both internal and external developments so as to take measured action when deemed appropriate. On the health and safety front, the management team will monitor relevant developments closely to ensure that appropriate health precautions against the pandemic are implemented at the shop, factory and office levels.

Despite the uncertain outlook, the management is convinced that challenges and opportunities go hand in hand. Since COVID-19, consumers have gained greater appreciation for maintaining a healthy diet, which is an area that the Group holds particular expertise. To address their needs will include the Group's portfolio of pre-packaged food that are both convenient and hygienic. Certainly the need to work from home and dine at home present yet another opportunity which the Group will seek to seize by bolstering its online presence and delivery services.

Still other opportunities to be explored will be cross brand collaborations. On the back of the Group and HKBN Group's announcement of a five-year Barter and Bundle strategic partnership, the Group is pleased to commence a long-term partnership with the established brand, Eu Yan Sang. The link-up, which will also involve the sharing of resources, holds the potential for mutual success in the areas of product development and customer building, and for securing leadership positions in the health and wellness industry for both parties.

While leaving no stone unturned in its quest for new opportunities, the Group is well aware of the importance of financial prudence, especially during such a difficult period. It will therefore implement appropriate cost controls and maintain stable operational cash flow.

Hong Kong Retail

As regard the Hong Kong retail business, the Group will strive to maintain market leadership. Towards this goal, the Group will be flexible in its management of the local retail network, with stability its primary objective. Correspondingly, it plans to open one new shop in the second half of 2020 at an MTR station. In view of softening rent resulting from a depressed rental market, the Group will also look to negotiate further with landlords on rent concessions and lease renewals, having already made progress in 1H2020 when rental increases were generally minimised. With respect to the Handmade Bakery (嚐麥手作) operation, the Group will consider adding to the two shops that are currently in operation when retail sentiment improves.

In view of present work from home and social distancing practices, the Group will further promote its wide variety of ready-to-eat food and soups, and enticing Home Made Dish Series (自家小菜系列). Also, it will continue to raise awareness of the fish essence and organic chicken essence products through social media campaigns and influencer engagement. Furthermore, in the third quarter of 2020, the Group will introduce new flavours of its rice water series, to appeal to existing and new customers. Another focus on the product development side will be the introduction of Chinese health supplements, as the Group seeks to capitalise on a burgeoning market that is driven by demand from a health-conscious population.

Also due to the pandemic, the Group will participate in more online exhibitions and events, as their offline counterparts are suspended. Moreover, it will be launching a revamped "Hung Fook Tong Online" platform during the second half of this year that will enable customers to readily place orders or reserve their favourite products online, and pick up their items at selected Hung Fook Tong retail stores.

Wholesale

On the Hong Kong wholesale front, the Group is set to launch more cross brand promotions and products in the remaining financial year. This will include an authentic Hong Kong Milk Tea (鴻福堂 X 檀島港式奶茶) resulting from a partnership with Honolulu Coffee Shop, that has entered the market subsequent to the reporting period, i.e. July. In addition, more specialty and seasonal food products from different markets, including South Korea, will be introduced.

As for Mainland China, with the epidemic under control and life gradually returning to normal, consumption sentiment is expected to improve, resulting in fresh opportunities. Consequently, industry peers will likely take an aggressive approach towards promotions to make up for weak business during the first half year. To remain competitive, the Group will work on strengthening business ties with key accounts to boost performance, while actively seeking to bring its products back to online platforms as well as promoting sales through online and social marketing activities.

In Taiwan, the Group will seek to boost sales and invigorate business by launching Hung Fook Tong X KAKAO FRIENDS products in July this year. The Group also plans to introduce fresh drink products to the Singapore and South Korea markets, while herbal drinks will be employed in tapping more European countries and New Zealand.

CONCLUSION

Hung Fook Tong has experienced numerous economic cycles over the past three decades, and even though COVID-19 is an unprecedented event, the Group will not be discouraged. It will leverage its full arsenal, including its strong brand profile, wide spectrum of wholesome products, leadership in the wellness food and beverage industry, and ample experience. Just as importantly, it will draw support from stakeholders both within and outside the industry. By working together, underpinned by the aforementioned attributes, the Group will be able to brave the difficulties ahead with all stakeholders while seizing new business opportunities.

FINANCIAL OVERVIEW

Revenue

In 1H2020, the Group's revenue amounted to HK$345.2 million, representing a decrease of 11.7% from HK$390.9 million in 1H2019. Both Hong Kong retail sales and wholesales business experienced a decline in revenue to HK$276.9 million and HK$68.2 million respectively, representing a decrease of 6.6% from HK$296.5 million and 27.7% from HK$94.4 million respectively in 1H2019, as a result of the COVID-19 outbreak and global economic slowdown.

Cost of Sales

In 1H2020, the Group's cost of sales amounted to HK$122.7 million, representing a decrease of 17.2% from HK$148.2 million in 1H2019. As a percentage of revenue, cost of sales represented 35.6% and 37.9% in 1H2020 and 1H2019 respectively.

Gross Profit and Gross Profit Margin

In 1H2020, the Group's gross profit amounted to HK$222.4 million, representing a decrease of 8.3% from HK$242.7 million in 1H2019. Despite a decrease in gross profit, the Group's gross profit margin increased by 2.3 percentage points to 64.4% as compared to 62.1% in 1H2019 due to effective cost control measures with continuous enhancement in supply chain management and improvement in the sales mix.

Staff Costs

In 1H2020, the Group's staff costs amounted to HK$101.7 million, representing a decrease of 18.0% from HK$123.9 million in 1H2019. The decrease was mainly due to decrease in number of headcount and receipt of government grant from the Employment Support Scheme. The staff costs-to-revenue ratio is 29.4% as compared to 31.7% in 1H2019.

Rental Expenses

In 1H2020, rental expenses in relation to the Group's 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 arisen from lease liabilities) amounted to HK$48.6 million, representing a decrease of 7.6% from HK$52.6 million in 1H2019. The decrease was mainly due to concessions from certain landlords resulting in more affordable rental rates. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 17.6% as compared to 17.8% in 1H2019.

Advertising and Promotion Expenses

In 1H2020, the Group's advertising and promotion expenses amounted to HK$13.1 million, representing a decrease of 16.0% from HK$15.6 million in 1H2019. This accounted for 3.8% and 4.0% respectively in percentage to revenue in 1H2020 and 1H2019. The Group was more prudent in managing marketing expenses during the period.

Depreciation

In 1H2020, the depreciation of property, plant and equipment of the Group amounted to HK$16.6 million, representing an increase of 20.3% from HK$13.8 million in 1H2019. The increase was mainly due to increase in acquisition of plant and machinery for production plant in Kaiping City, Mainland China in second half of 2019, causing an increase in depreciation in 2020. The depreciation-to-revenue ratio is 4.8% as compared to 3.5% in 1H 2019.

Net Profit

Profit attributable to owners of the Company for the six months ended 30 June 2020 was HK$23.0 million, representing an increase of 355.8% from HK$5.1 million in 1H2019. The net profit margin (calculated as profit for the period as a ratio of revenue) for six months ended 30 June 2020 was 6.8%, as compared to 1.3% in 1H2019.

Earnings per share for profit attributable to owners of the Company for the six months ended 30 June 2020 amounted to HK3.51 cents, as compared to HK0.77 cent in 1H2019.

Capital Expenditure

During 1H2020, capital expenditure amounted to HK$11.8 million (1H2019: HK$28.7 million). This amount was mainly used for the opening of new shops, revamping of existing retail shops, acquisition of production facilities in Mainland China and Tai Po plants, and construction for the production plant in Kaiping City, Mainland China.

Liquidity and Financial Resources Review

As at 30 June 2020, the Group had bank deposits and cash balance amounted to HK$107.4 million (31 December 2019: HK$95.4 million).

As at 30 June 2020, the gearing ratio of the Group was 0.26 (31 December 2019: 0.34), which was calculated based on total bank borrowings divided by equity attributable to owners of the Company.

As at 30 June 2020, the Group had total banking facilities of HK$149.0 million (31 December 2019: HK$137.8 million) of which HK$76.3 million (31 December 2019: HK$94.9 million) had been utilised.

As at 30 June 2020, the Group's current liabilities exceeded its current assets by HK$115.2 million (31 December 2019: HK$142.9 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons and cards to customers in Hong Kong of HK$152.3 million (31 December 2019: HK$156.3 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. Excluding the aforementioned receipts in advance, the Group would have net current assets of HK$37.1 million (31 December 2019: HK$13.4 million) and current ratio of 1.17 (31 December 2019: 1.06).

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

Foreign Currency Risk

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

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments during the six months ended 30 June 2020.

Contingent Liabilities

Taclon Industries Limited, a subsidiary of the Company, 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 30 June 2020, the Group employed approximately 891 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 six months ended 30 June 2020, 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

Dividend

A special dividend in respect of the year ending 31 December 2020 of HK0.90 cent per ordinary share was declared by the Board on 24 August 2020. The proposed special dividend is not reflected as dividend payable in the condensed interim consolidated statement of financial position, but will be recognised in shareholders' equity for the year ending 31 December 2020. The special dividend will be payable on or about Friday, 25 September 2020 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Friday, 11 September 2020.

Closure of Register of Members

For determining the entitlement to the special dividend, the register of members of the Company will be closed from Thursday, 10 September 2020 to Friday, 11 September 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the special dividend as stated, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Branch Share Registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 9 September 2020.

Corporate Governance Code

The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the six months ended 30 June 2020.

Model Code of Securities Transactions by Directors

The Company has adopted a code of conduct (the "**Code of Conduct**") based on the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "**Model Code**"). For the six months ended 30 June 2020, all of the Directors confirmed that they have complied with the required standards set out in the Model Code and the Code of Conduct.

Audit Committee

The Company has established an audit committee ("**Audit Committee**") which currently consists of all three independent non-executive Directors of the Company with written terms of reference which deal clearly with its authority and duties. Amongst the Audit Committee's principal duties is to review and supervise the Company's financial reporting process, risk management and internal control systems of the Group, including the review of the unaudited interim financial information for the six months ended 30 June 2020.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the unaudited interim financial information for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Purchase, Sale or Redemption of Listed Securities

For the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Publication of Interim Report

The 2020 interim report of the Company containing all the information required by the Listing Rules will be dispatched to its shareholders and published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.hungfooktongholdings.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, 24 August 2020

As at the date of this announcement, the Board comprises Mr. Tse Po Tat, Dr. Szeto Wing Fu and Ms. Wong Pui Chu as executive Directors, and Mr. Kiu Wai Ming, Prof. Sin Yat Ming and Mr. Andrew Look as independent non-executive Directors.