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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 2021

HIGHLIGHTS

- Revenue for the six months ended 30 June 2021 ("**1H2021**") increased by 0.3% to HK$346.3 million, when compared with HK$345.2 million for the six months ended 30 June 2020 ("**1H2020**").

  – Revenue from the Hong Kong retail business decreased by 2.3% to HK$270.6 million (1H2020: HK$276.9 million), with a retail network comprising 121 self-operated shops in Hong Kong as at 30 June 2021.

  – Revenue from the wholesale business increased by 10.9% to HK$75.7 million (1H2020: HK$68.2 million).

- Gross profit for 1H2021 decreased by 5.4% to HK$210.5 million (1H2020: HK$222.4 million), while gross profit margin for 1H2021 decreased by 3.6 percentage points to 60.8% (1H2020: 64.4%).

- Profit attributable to owners of the Company for 1H2021 decreased by 68.4% to HK$7.3 million (1H2020: HK$23.0 million).

- Earnings per share for profit attributable to owners of the Company for 1H2021 was HK1.11 cents (1H2020: HK3.51 cents).

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 2021 together with comparative figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		(Unaudited)	
		Six months ended 30 June	
		2021	2020
	Note	***HK$'000***	*HK$'000*
Revenue	*3,4*	**346,286**	345,172
Cost of sales	*5*	**(135,816)**	(122,739)
Gross profit		**210,470**	222,433
Other income and other losses, net	*4*	**4,856**	10,393
Selling and distribution costs	*5*	**(33,756)**	(33,901)
Administrative and operating expenses	*5*	**(170,530)**	(165,714)
Impairment on trade receivables	*5*	**–**	(790)
Operating profit		**11,040**	32,421
Finance income		**47**	25
Finance costs		**(2,834)**	(3,947)
Finance costs, net		**(2,787)**	(3,922)
Share of losses of a joint venture accounted for using the equity method		**–**	(15)
Profit before income tax		**8,253**	28,484
Income tax expense	*6*	**(1,391)**	(5,158)
Profit for the period		**6,862**	23,326
Profit/(loss) attributable to:			
Owners of the Company		**7,272**	23,043
Non-controlling interests		**(410)**	283
		6,862	23,326

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2021

		(Unaudited)	
		Six months ended 30 June	
		2021	2020
	Note	***HK$'000***	*HK$'000*
Other comprehensive income/(loss):			
Item that may be reclassified to profit or loss			
– Currency translation differences		**5,088**	(3,577)
Other comprehensive income/(loss), net of tax		**5,088**	(3,577)
Total comprehensive income for the period		**11,950**	19,749
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**12,314**	19,503
Non-controlling interests		**(364)**	246
		11,950	19,749
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted (HK cents per share)	*7*	**1.11**	3.51

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	As at 30 June 2021 HK$'000 (Unaudited)	As at 31 December 2020 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**309,560**	310,348
Right-of-use assets		**204,114**	213,571
Financial asset at fair value through other comprehensive income	*10*	**5,000**	–
Investments in an associate and joint ventures	*11*	**36**	36
Prepayments and deposits		**36,580**	36,578
Deferred income tax assets		**13,582**	14,891
		568,872	575,424
Current assets			
Inventories		**49,469**	46,047
Trade receivables	*12*	**45,667**	42,438
Prepayments, deposits and other receivables		**35,236**	32,225
Amount due from a related company		**–**	690
Tax recoverable		**839**	2,798
Cash and cash equivalents		**128,509**	134,905
		259,720	259,103
Total assets		**828,592**	834,527
EQUITY			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Reserves		**341,354**	329,040
		347,913	335,599
Non-controlling interests		**(1,355)**	(991)
Total equity		**346,558**	334,608

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2021

	Note	As at 30 June 2021 HK$'000 (Unaudited)	As at 31 December 2020 HK$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**69,227**	81,077
Provision for reinstatement costs		**5,241**	5,268
Deferred income tax liabilities		**9,457**	9,457
Bank borrowings		**5,720**	8,213
		89,645	104,015
Current liabilities			
Trade payables	*13*	**37,180**	29,078
Accruals and other payables		**60,977**	74,687
Provision for reinstatement costs		**2,711**	2,437
Receipts in advance		**162,194**	157,298
Lease liabilities		**96,244**	94,705
Bank borrowings		**29,955**	33,386
Tax payable		**3,128**	4,313
		392,389	395,904
Total liabilities		**482,034**	499,919
Total equity and liabilities		**828,592**	834,527
Net current liabilities		**(132,669)**	(136,801)
Total assets less current liabilities		**436,203**	438,623

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 27 August 2021.

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 2021 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 does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The Group's current liabilities exceeded its current assets by HK$132,669,000 as at 30 June 2021 (31 December 2020: HK$136,801,000). The directors of the Company have reviewed the Group's cash flow projections, which covers a period of 12 months from 30 June 2021. 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 2021. 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 2020, 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 Summary of significant accounting policies (continued)

2.2.1 Equity investments

(i) Classification

The Group classifies its financial assets to be measured subsequently at fair value either through other comprehensive income (FVOCI) or through profit or loss (FVPL) and at amortised cost.

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

(ii) Measurement

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

(iii) Equity instruments

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

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 2021:

HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2

The Group has adopted HKFRS 16 (Amendments) - Covid-19-Related Rent Concessions retrospectively from 1 January 2021. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021; and c) there is no substantive change to other terms and conditions of the lease.

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 (continued)

(a) Amended standards adopted by the Group (continued)

The Group has not elected to apply the optional practical expedient to all qualifying COVID-19-related rent concessions, and all the COVID-19-related rent concessions were consistently accounted for as lease modification in accordance with HKFRS 16.

The above newly adopted amendments to existing standards did not have any impact on the results and financial position of the Group.

(b) New standards, amendments to standards, improvements, interpretation and accounting guideline have been issued but not yet adopted

The following new standard, amendments to existing standards, improvements, interpretation and accounting guideline have been issued but are not effective for the financial year beginning on or after 1 January 2021 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Annual Improvements Project	Annual Improvements to HKFRSs Standards 2018 – 2020	1 January 2022
HKFRS 3, HKAS 16, and HKAS 37 (Amendments)	Narrow-scope Amendments	1 January 2022
Hong Kong Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 1 (Revised) (Amendments)	Presentation of Financial Statements	1 January 2023
HKAS 8 (Amendments)	Accounting Policies, Change in Accounting Estimates and Errors	1 January 2023
HKFRS Practice Statement 2 (Amendment)	Making Materiality Judgements	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HK (IFRIC) – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	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 standard, amendments to existing standards, improvements, interpretation and accounting guideline when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standard, amendments, improvements, interpretation and accounting guideline, none of which is expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 an associate and joint ventures, financial assets at fair value through other comprehensive income, tax recoverable and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment for the six months ended 30 June 2021 and 2020.

Geographically, management considers the distribution of bottled drinks, other herbal products, soups and snacks through retail and wholesale channels are mainly located in Hong Kong and the PRC, which the revenue and segment results are determined by the nature of the business. The assets are determined based on where the assets are located. Information relating to segment liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

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

There is no single external customer that contributed more than 10% revenue to the Group's revenue for the six months ended 30 June 2021 and 2020 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2021 and 2020 are as follows:

	(Unaudited) Six months ended 30 June 2021		
	Hong Kong Retail *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**274,516**	**77,532**	**352,048**
Less: Inter-segment revenue	**(3,900)**	**(1,862)**	**(5,762)**
Revenue from external customers	**270,616**	**75,670**	**346,286**
Segment results	**23,809**	**7,946**	**31,755**
Corporate expenses			**(20,715)**
Finance costs, net *(Note)*			**(2,787)**
Profit before income tax			**8,253**
Income tax expense			**(1,391)**
Profit for the period			**6,862**
Other segment items:			
Capital expenditure	**10,041**	**3,577**	**13,618**
Depreciation and amortisation	**60,927**	**6,357**	**67,284**
Loss on disposal of property, plant and equipment	**46**	**–**	**46**

3 SEGMENT INFORMATION (CONTINUED)

	(Unaudited) Six months ended 30 June 2020		
	Hong Kong Retail	Wholesale	Total
	HK$'000	*HK$'000*	*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 a joint venture 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

Note:

Finance costs included interest expenses arisen from lease liabilities of HK$2,515,000 (2020: HK$2,197,000).

3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2021 and 31 December 2020 are as follows:

	Hong Kong Retail *HK$'000*	Wholesale *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
As at 30 June 2021 (Unaudited)				
Segment assets	**501,848**	**278,592**	**(338)**	**780,102**
Investments in an associate and a joint venture				**36**
Financial assets at fair value through other comprehensive income				**5,000**
Tax recoverable				**839**
Deferred income tax assets				**13,582**
Corporate assets				**29,033**
Total assets				**828,592**
As at 31 December 2020 (Audited)				
Segment assets	526,938	281,100	(429)	807,609
Amount due from a related company				690
Investments in joint ventures				36
Tax recoverable				2,798
Deferred income tax assets				14,891
Corporate assets				8,503
Total assets				834,527

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

4 REVENUE, OTHER INCOME AND OTHER LOSSES, NET

The Group's revenue, other income and other losses, net recognised during the six months ended 30 June 2021 and 2020 are as follows:

	(Unaudited) Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**346,286**	345,172
Other income		
Government grants *(Note (a))*	**1,400**	9,600
Management income from an associate	**723**	–
Service income *(Note (b))*	**2,268**	485
Insurance claim	**216**	39
Others	**275**	614
	4,882	10,738
Other losses, net		
Exchange differences	**20**	(332)
Losses on disposal of property, plant and equipment	**(46)**	(13)
	(26)	(345)
Other income and other losses, net	**4,856**	10,393

Notes:

(a) Government subsidies of HK$1,400,000 were granted from the Catering Business Subsidy Scheme (2020: HK$9,600,000 from the one-off Retail Sector Subsidy Scheme and the 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 the respective period end date and recognised in profit or loss.

(b) The Group has entered into a cooperation agreement with an independent third party for the provision of marketing distribution services for twelve-month period ending 31 December 2021 at HK$4,000,000. The service income is recognised when the related services are rendered.

5 EXPENSES BY NATURE

	(Unaudited) Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
Cost of inventories sold	**105,264**	94,237
Lease rental in respect of retail outlets *(Note (a))*		
– Contingent rental	**217**	150
Lease rental in respect of storage spaces and office premises *(Note (a))*	**5,279**	4,981
Advertising and promotional expenditure	**12,644**	13,133
Depreciation of property, plant and equipment	**17,786**	16,590
Depreciation of right-of-use assets	**49,498**	47,105
Communication and utilities	**13,548**	12,317
Employee benefit expenses (including directors' emoluments) *(Note (b))*	**102,528**	101,651
Provision for impairment on trade receivables	**–**	790
Legal and professional fees	**3,773**	3,782
Tools, repair and maintenance expenses	**5,444**	5,076
Transportation and distribution expenses	**15,013**	13,661
Others	**9,108**	9,671
Total cost of sales, selling and distribution costs, administrative and operating expenses and impairment on trade receivables	**340,102**	323,144

Notes:

(a) These expenses included short-term leases expenses of HK$531,000 (2020: HK$609,000), variable lease payment expenses of HK$1,253,000 (2020: HK$845,000) and other rental-related expenses of HK$3,712,000 (2020: HK$3,677,000) for the six months ended 30 June 2021.

(b) During the six months ended 30 June 2020, 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 have been received. 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 against with the employee benefit expenses. The remaining amount of HK$3,383,000 was recognised as deferred government grants as of 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 (2020: 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	
	2021	2020
	HK$'000	*HK$'000*
Current income tax		
– Over-provision in prior years	**(20)**	–
Deferred income tax	**1,411**	5,158
Income tax expense	**1,391**	5,158

7 EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June	
	2021	2020
Profit attributable to owners of the Company (HK$'000)	**7,272**	23,043
Weighted average number of ordinary shares for the calculation of basic earnings per share (thousands)	**655,944**	655,944
Earnings per share for profit attributable to owners of the Company		
– Basic earnings per share (HK cents)	**1.11**	3.51
– Diluted earnings per share (HK cents)	**1.11**	3.51

(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 2021 and 2020 equal basic earnings per share as there were no potentially dilutive ordinary shares as at both period ends.

8 DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2021 (30 June 2020: no interim dividend but a special dividend of HK$0.90 cent per ordinary share).

9 PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
At 1 January	**310,348**	309,148
Additions	**13,618**	11,839
Disposals	**(92)**	(97)
Depreciation	**(17,786)**	(16,590)
Exchange difference	**3,472**	(2,506)
At 30 June	**309,560**	301,794

Depreciation of HK$5,682,000 (2020: HK$6,396,000) has been charged in 'cost of sales', HK$12,104,000 (2020: HK$10,194,000) in 'administrative and operating expenses' for the six months ended 30 June 2021.

10 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2021 *HK$'000* **(Unaudited)**	As at 31 December 2020 *HK$'000* (Audited)
Unlisted equity investment	**5,000**	–

	(Unaudited) Six months ended 30 June	
	2021 *HK$'000*	2020 *HK$'000*
At 1 January	**–**	–
Transfer from the investment in an associate *(Note 11)*	**5,000**	–
At 30 June	**5,000**	–

Financial asset at fair value through other comprehensive income ("FVOCI") comprises unlisted equity investment which is transferred from the investment in an associate (Note 11). The investment is not held for trading, and which the Group has irrevocably elected at initial recognition to recognise the investment as FVOCI. This is a strategic investment and the Group considers this classification to be more relevant.

The Group has engaged AVISTA Valuation Advisory Limited, an independent professional qualified valuer, to assist management to determine the fair value of the equity investment as of 4 May 2021, being the date of initial recognition, and 30 June 2021. Management reviewed the valuation report and discussed the valuation processes and results with the external valuer.

The fair value of the investment was measured at level 3 of fair value hierarchy, based on its net asset value attributable to the Group as at 4 May 2021 and 30 June 2021. The fair values as at 4 May 2021 and 30 June 2021 approximated to the investment cost, since the investee still not yet commenced its e-commerce business. Therefore, there was no fair value gain or loss recognised during the six months ended 30 June 2021. Other than the net asset value of the investment, no other significant unobservable inputs (i.e. inputs for which market data are not available and that are developed using the best information available) were noted.

11 INVESTMENTS IN AN ASSOCIATE AND JOINT VENTURES

	(Unaudited) Six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
At 1 January	**36**	55
Capital injection *(Note)*	**5,000**	–
Share of losses of a joint venture	**–**	(15)
Transfer to financial assets at fair value through other comprehensive income *(Note)*	**(5,000)**	–
At 30 June	**36**	40

Note:

As at 31 December 2020, the Group has entered into a joint venture and shareholders agreement with other investors for the investment in a Hong Kong incorporated company which engaged in the provision of e-commerce business in Hong Kong. The investee is incorporated on 30 March 2021 and the Group shall subscribe 10,000,000 ordinary shares in the investee at a cash consideration of HK$10,000,000 with initial subscription being 5,000,000 ordinary shares at HK$5,000,000. However, the Group is entitled to elect to subscribe less than 10,000,000 shares and in which case, the Group's shareholding in the investee will be diluted accordingly. Management has taken into consideration of the Group's representative on the Board of Directors in the investee and considered that the Group has significant influence in the investment. Therefore, it was classified as an associate since the initial subscription.

On 4 May 2021, the Group's representative resigned from the Board of Directors of the investee, and management confirmed to the co-investors for surrendering its right to appoint a representative, and the co-investors have acknowledged that the Group will not appoint any replacement after the resignation of their representative. In addition, the Group would exercise their respective rights of dilution and elect not to subscribe to the second subscription, and accordingly its respective shareholdings in investee will be diluted. Management considered that the Group ceased to have significant influence over the investee, and the investment has been reclassified as financial assets at fair value through other comprehensive income since 4 May 2021. Management assessed that the fair value of the investment approximated to its carrying amount as at 4 May 2021, and therefore there was no fair value gain or loss recognised in the profit or loss on the date of reclassification.

12 TRADE RECEIVABLES

	As at 30 June 2021 *HK$'000* (Unaudited)	As at 31 December 2020 *HK$'000* (Audited)
Trade receivables from third parties	**47,050**	44,699
Trade receivables from an associate	**1,858**	980
	48,908	45,679
Less: Provision for impairment on trade receivables	**(3,241)**	(3,241)
Trade receivables, net	**45,667**	42,438

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (31 December 2020: 30 to 105 days). As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade receivables, based on invoice date, are as follows:

	As at 30 June 2021 *HK$'000* (Unaudited)	As at 31 December 2020 *HK$'000* (Audited)
Less than 30 days	**19,447**	17,156
31 – 90 days	**23,817**	21,561
Over 90 days	**2,403**	3,721
	45,667	42,438

13 TRADE PAYABLES

As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade payables, based on invoice date are as follows:

	As at 30 June 2021 *HK$'000* (Unaudited)	As at 31 December 2020 *HK$'000* (Audited)
0 – 30 days	**18,490**	19,232
31 – 60 days	**14,643**	8,069
61 – 90 days	**3,734**	591
Over 90 days	**313**	1,186
	37,180	29,078

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2021 ("**1H2021**"), the world remained in the grip of the Coronavirus Disease 2019 ("**COVID-19**") pandemic. In Hong Kong, many segments continued to be impacted by weak consumer sentiment, including the retail industry. The Group was invariably affected, as reflected by a modest decline in retail segment revenue when compared with the six months ended 30 June 2020 ("**1H2020**"). In regard to the wholesale operation, both the Hong Kong and Mainland China businesses performed more favourably – the latter owing to the resumption of business ties with certain key accounts. Overall, the Group's revenue increased by 0.3% to HK$346.3 million (1H2020: HK$345.2 million) during 1H2021.

However, gross profit decreased by 5.4% to HK$210.5 million (1H2020: HK$222.4 million), and gross profit margin slipped to 60.8% (1H2020: 64.4%). The contractions were primarily due to lower gross profit from the Hong Kong retail business as a result of higher raw material and labour costs, as well as higher production costs at the Kaiping plant owing to the appreciation of the Renminbi.

Furthermore, due to increases in rental expenses and staff costs associated with new shop openings, increase in utility expenses, greater advertising and promotion expenses, higher development costs from certain new lines of business, together with the significant decrease in government grants and subsidies received or receivable, mainly comprising subsidies for the retail sector and food licence holders of HK$1.4 million (1H2020: HK$9.6 million), profit attributable to owners of the Company dropped by 68.4% to HK$7.3 million (1H2020: HK$23.0 million).

The Group remains in sound financial health, and has stable operating cash flows. It also has sufficient cash and cash equivalents as well as unutilised banking facilities, amounting to approximately HK$128.5 million and HK$102.2 million, respectively, as at 30 June 2021 (31 December 2020: HK$134.9 million and HK$92.2 million, respectively).

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

Continuing to be the Group's major revenue contributor, the Hong Kong retail operation generated HK$270.6 million (1H2020: HK$276.9 million) in revenue – a year-on-year decline of 2.3%, which equated to 78.1% of total revenue in 1H2021. The modest decline was mainly due to the lingering effects of COVID-19 that kept certain social distancing and health measures in place, as well as weak consumer sentiment, which in turn resulted in a decline in footfall and same-store sales. Moreover, income derived from its participation in exhibitions and expos was lower as certain events were either cancelled or of a smaller scale. The retail operation also experienced a drop in profit; down by 58.0% to HK$23.8 million (1H2020: HK$56.6 million). The contraction was due to a combination of factors, including a decline in revenue; deep promotional discounts which affected the gross profit margin; increase in raw material, labour and rental costs; and a drop in government grants and subsidies – falling from HK$9.6 million in 1H2020 to about HK$1.4 million in 1H2021.

Despite the challenging conditions, the Group has prudently scaled up its business and expedited brand development. During 1H2021, the Group's network of self-operated shops expanded to 121, including the opening of five "HFT Life" café concept stores and one new shop located at the Tuen Ma Line. Such expansion efforts have thereby preserved the Group's standing as the largest herbal retailer in Hong Kong based on retail network size.

Introduced in February 2021, the "HFT Life" brand represents an innovative new café concept developed by the Group. In line with the principle of bringing together Western and Chinese culinary cultures, HFT Life's offerings include baked goods from Handmade Bakery (嚐麥手作) and the Group's signature soups and drinks. What is more, corresponding with the objective of meeting today's urbanites pursuit of a healthy lifestyle, HFT Life offers a simple, stylish environment in which to relax and enjoy its diverse food and drink offerings, all the while allowing the Group to also broaden its customer base, tap new culinary areas and boost its image among the younger generation. To further enhance the exposure of HFT Life, the store at Happy Valley consists of a two-storey complex that doubles as a community space, thus allowing the HFT Life brand to build ties with the local community.

In view of the new normal, which includes "stay-at-home" and "work-from-home" arrangements, as well as growing awareness of the importance of a healthy diet driven by the pandemic, the Group has launched more bulk pack frozen products and snack (自家小食) options, that allow for convenient cooking at home. Separately, as a more premium alternative for customers seeking to strengthen their health, especially their immune system, the Group has extended the chicken essence line with the launch of Cordyceps Organic Chicken Essence (野生冬蟲夏草有機滴雞精) in January 2021.

To mark the 35th anniversary of Hung Fook Tong, the Group launched a special campaign to celebrate the occasion and to boost customer traffic. This included introducing weekly HK$35 special offers which received favourable customer response. Furthermore, to enhance engagement with JIKA CLUB (自家 CLUB) members as well as raise memberships, special high spending and top up promotions were launched. As a result, JIKA CLUB memberships exceeded 1,080,000 as at 30 June 2021, or an increase of over 60,000 members within the first six months of 2021. Moreover, a rise in average spending per member was achieved, the consequence of a series of bulk purchase promotions and exclusive offers. With regard to the Hung Fook Tong mobile application ("**APP**"), its download has increased steadily, and accounted for about 22% of member transactions in 1H2021 (1H2020: 17%).

As at 30 June 2021, 18 HUNG+ Smart Vendor machines were in operation in commercial buildings and residential estates across Hong Kong.

Wholesale

Revenue from the wholesale segment picked up; rising by 10.9% to HK$75.7 million (1H2020: HK$68.2 million), which was mainly due to an improvement in sales derived from the Mainland China market in 1H2021. What is more, segment profit rose appreciably by 1,431.0% to HK$7.9 million (1H2020: HK$0.5 million), which can be attributed to an increase in segment results from the Hong Kong wholesale operation resulting from lower advertising expenses and transportation costs. The Mainland China wholesale business also moved from a loss to profit making position, following the re-engineering of the Group's business processes.

Hong Kong

In Hong Kong, the local operation continued to provide a steady source of income to the Group, which totalled HK$60.5 million (1H2020: HK$60.7 million), due to stable ties with key accounts, distributors and online resellers. Moreover, the Group was able to tap more wholesale channels including online sales platforms such as BNYBUY, yuehwa.com, jetsoappshop.com, and Bonjour HKMall Online Shop, and other smaller e-shops. Still other efforts aimed at driving sales included the cross branding of products with the theme of "Old Hong Kong" (懷舊•香港地) for tapping the public's love of nostalgia for the past. Under this theme, the Group collaborated with Honolulu Cafe (檀島咖啡餅店) in launching an Ice Lemon Tea Drink with special packaging, as well as partnered with the renowned Hong Kong savoury snack company Koon Wah Food (冠華食品) in introducing a new Tangerine Peel Mandarin Drink (陳皮柑桔). The two collaborations are particularly meaningful as both companies were founded in Hong Kong decades ago.

Mainland China

Revenue from the Mainland China wholesale segment soared by 102.1% to HK$15.2 million (1H2020: HK$7.5 million), during 1H2021. The upturn can be attributed to the Group's unremitting effort to restore business ties with key accounts, mainly in South China, which were severed due to social activities in Hong Kong in the second half of 2019 – the Group's products were available again at certain key accounts from April 2020 onwards, hence also explains the relatively lower revenue base in 1H2020.

During the period, the Group principally focused on bringing its products back to Guangdong Province. Owing to such effort, a greater array of fresh and long shelf-life bottled drinks became available once again at over 10,000 convenience stores in Guangzhou, Dongguan, Shenzhen, etc. Consequently, the Group recorded significant sales growth from a number of key accounts and a distributor in Guangzhou. Apart from convenience stores, the Group's products were also available at supermarkets, department stores, local grocery stores and through online platforms such as JD.com (京東), Taobao (淘寶) and Meituan (美團).

On a more fundamental level, the performance of the Mainland China wholesale operation has also been boosted through business optimisation. This has involved the re-engineering of business processes, including the shifting of logistics and brand maintenance activities to distributors. The upshot of such changes has been the Group's ability to operate a single office, located in Guangzhou, which in turn has allowed it to save both operational and management costs.

Other Markets

Many of the Group's overseas wholesale markets remained severely affected by COVID-19 lockdowns in 1H2021. Consequently, Australia, Canada, Malaysia and the United States all recorded lacklustre sales. Moreover, the Group chose to delay entering new markets for the time being.

Safety and Production Capability

Food safety and personal hygiene are always major concerns of the Group. Consequently, it has been carefully monitoring the development of the pandemic during the period. Moreover, it has ensured that health and safety measures are fully implemented at its shops, factories and offices so that both customers and staff are protected. Such measures have included enhanced cleaning at its factories and observance of ISO22000 food safety guidelines. In addition, the Group has encouraged staff to get vaccinated, and has offered such incentives as vaccination leave. Consequently, it observed a steady increase in vaccination rate among the workforce.

With reference to production, the Group has added new facilities to support the production of Joyous Series products, owing to increased demand. In addition, to further reduce its carbon footprint, the Group has installed solar panels at the rooftop of its Tai Po plant in late 2020, which generated over 143 MWh of green electricity during 1H2021.

PROSPECTS

Hong Kong has recently gained the upper hand on the pandemic crisis, due in part to a steady rise in vaccinations. Consequently, the Hong Kong Retail Management Association anticipates the local tourism, trade and economy will eventually return to normal. This prognosis will undoubtedly gain traction with the rollout of the Consumption Voucher Scheme and the easing of quarantine requirements for Mainland travellers. The Group believes that it is in a strong position to take advantage of the gradual recovery. Ahead of this eventuality, it has been actively preparing for the opening of new stores while concurrently boosting its online shopping and delivery services to capitalise on the digital shopping trend – a trend that has gathered momentum in the wake of the pandemic. The Group will also continue to engage in cross brand collaborations to achieve mutual success and launch cross brand products or promotions to arouse the interest of customers. As COVID-19 has raised public awareness of the importance of leading a healthy lifestyle, which includes consuming healthy food, this awareness will play to the traditional and longstanding strengths of Hung Fook Tong.

Hong Kong Retail

With respect to the Hong Kong retail segment specifically, the Group will seek to reinforce its position as the largest herbal retailer in the city by capitalising on more favourable rental rates as well as leveraging the potential of its HFT Life and Handmade Bakery brands. The Group therefore plans to open a minimum of three new shops in the second half of 2021. Already, subsequent to the review period, two HFT Life cafés opened at Cyberport and Hong Kong Polytechnic University in July and August respectively, thus bringing the total number of HFT Life cafés to seven. Another new shop for the Hung Fook Tong brand has opened in Kowloon in August, with more HFT Life café openings in the works.

Besides network expansion, the Group has partnered with SunnyHills (微熱山丘), a popular Taiwan brand, in launching the FORBIDDEN Durian Mooncake Series and other popular pastries, such as the traditional pineapple cake since July this year. More festive products from Hung Fook Tong are also in the pipeline for tapping the Winter Solstice and Lunar New Year. In addition, to appeal to the tastes of male customers, the Group will be launching new product as part of the Essence Category. Also, Handmade Bakery will be launching baked goods for different seasons and as follow-ups to the Matcha Bakery Series.

Still other strategies that the Group will employ to enhance its performance include making price adjustments for certain products, so as to offset rising production costs. In addition, the Group will introduce attractive offers and promotions to capitalise on the rollout of the Consumption Voucher Scheme in August 2021. The Group will also continue to engage its brand ambassador, Alfred Hui (許廷鏗), in advertising campaigns for promoting chicken essence and other products.

On the membership and digitisation fronts, which deliver synergistic benefits to the Group, a referral programme will be launched in the second half year as part of a major initiative to reach potential new members. Meanwhile, for existing members, corporate clients and online resellers, the Group will be promoting e-coupons. Also recognising the potential and importance of its APP, the Group will improve its user experience by adding new features, such as offering electronic discount coupons and rolling out the "JIKA Pay" e-Card campaign to encourage download and usage.

As an omnichannel retailer, the Group will further strengthen its exposure both offline and online. In the case of the former, it will continue to participate in relevant physical exhibitions. As for the latter, the Group will also take part in online expos as well as conduct more promotions via online resellers. Furthermore, the Group will present a revamped "JIKA *ON!*" online platform in the third quarter of 2021, which will widen the spectrum of products to include more health, beauty and household products.

Wholesale

With reference to the wholesale business, the Group expects sales from key accounts, grocery stores and restaurants to continue improving now that Hong Kong has been able to better manage the pandemic crisis. To capitalise on the more favourable conditions, the Group will be strengthening both its online sales and exposure. This will involve the launch of new products, comprising limited edition and brand collaboration products. Correspondingly, new soy milk drinks and fruit tea series that are part of the bottled drinks line up will be introduced. With regard to brand collaboration, the Group has partnered with KFC in launching a collaborative product, i.e. Heat Relief Herbal Drink (下火茶). In addition, more food items are set for introduction in the second half year, and will include a new vegetarian ambient soup and pre-packed vegetarian dishes.

In Mainland China, retailers are expected to continue promoting and selling their products online, as well as bolstering their delivery service against weaker shop traffic. To remain competitive, the Group will be vigorously promoting its products via online platforms. In addition, it will seek to strengthen ties with key accounts, principally in Guangdong Province, so that more of the Group's products can be restocked in convenience stores and supermarkets.

As for other markets that the Group has wholesale exposure, such as Malaysia, special limited-edition products will be introduced to encourage greater take-up. Furthermore, the Group will continue discussion with overseas markets, with the aim of tapping such countries as Singapore, South Korea, Thailand and the United Kingdom.

CONCLUSION

Over the past 35 years, Hung Fook Tong has established itself as a market leader in the wellness food and beverage industries. By providing high-quality, wholesome products that are the culmination of innovation and passion, Hung Fook Tong has also built a sterling reputation and earned widespread trust. The Group therefore remains confident in its ability to weather whatever conditions that may come as well as address the interests of its stakeholders.

FINANCIAL REVIEW

Revenue

In 1H2021, the Group's revenue amounted to HK$346.3 million, representing an increase of 0.3% from HK$345.2 million in 1H2020. Revenue from Hong Kong retail operation experienced a decline to HK$270.6 million, representing a decrease of 2.3% from HK$276.9 million in 1H2020 as the pandemic weakened consumption activities and consumer sentiment remained weak despite slow economic recovery. Revenue from wholesale business has increased to HK$75.7 million, representing an increase of 10.9% from HK$68.2 million in 1H2020 as a result of gradual recovery of the Group's business and operations in Mainland China market.

Cost of Sales

In 1H2021, the Group's cost of sales amounted to HK$135.8 million, representing an increase of 10.7% from HK$122.7 million in 1H2020. As a percentage of revenue, cost of sales represented 39.2% and 35.6% in 1H2021 and 1H2020 respectively.

Gross Profit and Gross Profit Margin

In 1H2021, the Group's gross profit amounted to HK$210.5 million, representing a decrease of 5.4% from HK$222.4 million in 1H2020. The Group's gross profit margin decreased by 3.6 percentage points to 60.8% as compared to 64.4% in 1H2020. The decrease was mainly due to the increase in raw material cost, higher staff costs and appreciation of the Renminbi causing an increase in production costs.

Staff Costs

In 1H2021, the Group's staff costs amounted to HK$102.5 million, representing an increase of 0.9% from HK$101.7 million in 1H2020. The increase was mainly due to the non-recurrent of receipt of government grant from the Employment Support Scheme in 1H2021. The staff costs-to-revenue ratio is 29.6% as compared to 29.4% in 1H2020.

Rental Expenses

In 1H2021, 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$51.4 million, representing an increase of 3.3% from HK$48.6 million in 1H2020. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 14.8% as compared to 14.1% in 1H2020.

Advertising and Promotion Expenses

In 1H2021, the Group's advertising and promotion expenses amounted to HK$12.6 million, representing a decrease of 3.7% from HK$13.1 million in 1H2020. This accounted for 3.7% and 3.8% respectively in percentage to revenue in 1H2021 and 1H2020. The Group was more prudent in managing marketing expenses during the period.

Depreciation

In 1H2021, the depreciation of property, plant and equipment of the Group amounted to HK$17.8 million, representing an increase of 7.2% from HK$16.6 million in 1H2020. The depreciation-to-revenue ratio is 5.1% as compared to 4.8% in 1H2020.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the six months ended 30 June 2021 was HK$7.3 million, representing a decrease of 68.4% from HK$23.0 million in 1H2020. The net profit margin (calculated as profit attributable to owners of the Company for the period as a ratio of revenue) for six months ended 30 June 2021 was 2.1%, as compared to 6.7% in 1H2020.

Earnings per share for profit attributable to owners of the Company for the six months ended 30 June 2021 amounted to HK1.11 cents, as compared to HK3.51 cents in 1H2020.

Capital Expenditure

During 1H2021, capital expenditure amounted to HK$13.6 million (1H2020: HK$11.8 million). This amount was mainly used for the opening of new shops, revamping of existing retail shops and acquisition of production facilities in Mainland China and Tai Po plants.

Liquidity and Financial Resources Review

As at 30 June 2021, the Group had bank deposits and cash balance amounted to HK$128.5 million (31 December 2020: HK$134.9 million).

As at 30 June 2021, the gearing ratio of the Group was 0.10 (31 December 2020: 0.12), which was calculated based on total bank borrowings divided by equity attributable to owners of the Company.

As at 30 June 2021, the Group had total banking facilities of HK$139.7 million (31 December 2020: HK$135.6 million) of which HK$37.5 million (31 December 2020: HK$43.4 million) had been utilised.

As at 30 June 2021, the Group's current liabilities exceeded its current assets by HK$132.7 million (31 December 2020: HK$136.8 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons and cards to customers in Hong Kong of HK$162.2 million (31 December 2020: HK$157.3 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$29.5 million (31 December 2020: HK$20.5 million) and current ratio of 1.13 (31 December 2020: 1.09).

The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable it to continue its business in a manner consistent with its short-term and long-term financial strategies.

Foreign Currency Risk

The Group operates mainly in Hong Kong and Mainland China and conducts its business primarily in Hong Kong dollars and RMB, hence is 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 2021.

Contingent Liabilities

Taclon Industries Limited, a wholly-owned 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 2021, the Group employed approximately 924 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 2021, 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

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2021 (1H2020: no interim dividend but a special dividend of HK0.90 cent per ordinary share).

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 2021.

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 2021, 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 2021.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the unaudited interim financial information for the six months ended 30 June 2021 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 2021, 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 2021 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, 27 August 2021

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.