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**HUNG FOOK TONG**

## **HUNG FOOK TONG GROUP HOLDINGS LIMITED**

**鴻福堂集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1446)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022**

#### **HIGHLIGHTS**

- Revenue for the year ended 31 December 2022 (“**2022**”) decreased by 1.3% to HK\$686.7 million from HK\$696.0 million for the year ended 31 December 2021 (“**2021**”).
  - Revenue from retail business decreased by 1.5% to HK\$517.4 million, with a retail network comprising 120 retail shops in Hong Kong as at 31 December 2022.
  - Revenue from wholesale business decreased by 0.9% to HK\$169.3 million.
- Gross profit for 2022 decreased by 2.6% to HK\$406.3 million from HK\$417.3 million in 2021, while gross profit margin for 2022 decreased by 0.8 percentage point to 59.2% as compared to 60.0% in 2021.
- Profit attributable to owners of the Company for 2022 decreased by 9.1% to HK\$7.5 million (2021: HK\$8.2 million).
- Earnings per share for profit attributable to owners of the Company for 2022 was HK1.14 cents (2021: HK1.25 cents).
- Proposed a final dividend and a special dividend of HK0.34 cent and HK0.28 cent per ordinary share, respectively, totalling HK0.62 cent per ordinary share (2021: a final dividend and a special dividend of HK0.37 cent and HK0.31 cent per ordinary share, respectively, totalling HK0.68 cent per ordinary share).

## RESULTS

The board of directors (the “**Board**”) of Hung Fook Tong Group Holdings Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2022 together with comparative figures for the previous financial year 2021 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

		Year ended 31 December	
		2022	2021
	Note	HK\$'000	HK\$'000
Revenue	3,4	686,718	695,996
Cost of sales	6	<u>(280,406)</u>	<u>(278,723)</u>
<b>Gross profit</b>		<b>406,312</b>	417,273
Other income, net	5	4,657	7,398
Selling and distribution costs	6	(58,629)	(62,998)
Administrative and operating expenses	6	(343,740)	(347,908)
(Provision for)/reversal of impairment loss on financial assets	6	<u>(934)</u>	<u>625</u>
<b>Operating profit</b>		<b>7,666</b>	14,390
Finance income	7	67	87
Finance costs	7	<u>(4,557)</u>	<u>(4,972)</u>
Finance costs, net	7	<u>(4,490)</u>	<u>(4,885)</u>
Share of losses of a joint venture accounted for using the equity method		<u>–</u>	<u>(6)</u>
<b>Profit before income tax</b>		<b>3,176</b>	9,499
Income tax expense	8	<u>(5,103)</u>	<u>(2,357)</u>
<b>(Loss)/profit for the year</b>		<b><u>(1,927)</u></b>	<b><u>7,142</u></b>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		7,472	8,223
Non-controlling interests		<u>(9,399)</u>	<u>(1,081)</u>
		<b><u>(1,927)</u></b>	<b><u>7,142</u></b>

		Year ended 31 December	
		2022	2021
	Note	HK\$'000	HK\$'000
<b>Other comprehensive (loss)/income:</b>			
<i>Item that may be reclassified to profit or loss</i>			
– Currency translation differences		(14,986)	6,302
<i>Item that will not be reclassified to profit or loss</i>			
– Change in fair value of financial asset at fair value through other comprehensive income (“FVOCI”)		<u>(5,000)</u>	<u>–</u>
<b>Other comprehensive (loss)/income, net of tax</b>		<u>(19,986)</u>	<u>6,302</u>
<b>Total comprehensive (loss)/income for the year</b>		<u>(21,913)</u>	<u>13,444</u>
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of the Company		(12,338)	14,459
Non-controlling interests		<u>(9,575)</u>	<u>(1,015)</u>
		<u>(21,913)</u>	<u>13,444</u>
<b>Earnings per share for profit attributable to owners of the Company</b>			
– Basic and diluted ( <i>HK cents</i> )	9	<u>1.14</u>	<u>1.25</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2022**

		<b>As at 31 December</b>	
	<i>Note</i>	<b>2022</b>	<b>2021</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		285,637	306,324
Right-of-use assets		177,173	193,454
Financial asset at fair value through other comprehensive income	11	–	5,000
Intangible assets		2,707	2,604
Investment in a joint venture	12	–	30
Prepayments and deposits		21,311	29,334
Deferred income tax assets		7,210	12,207
		<u>494,038</u>	<u>548,953</u>
<b>Current assets</b>			
Inventories		55,064	53,482
Trade receivables	13	58,426	46,345
Prepayments, deposits and other receivables		39,751	42,691
Prepaid tax		8,168	5,919
Cash and cash equivalents		103,906	116,676
		<u>265,315</u>	<u>265,113</u>
<b>Total assets</b>		<u><b>759,353</b></u>	<u><b>814,066</b></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	14	6,559	6,559
Reserves		316,237	330,642
		<u>322,796</u>	<u>337,201</u>
<b>Non-controlling interests</b>		<u>(14,208)</u>	<u>(2,240)</u>
<b>Total equity</b>		<u><b>308,588</b></u>	<u><b>334,961</b></u>

		As at 31 December	
		2022	2021
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities		55,927	59,028
Provision for reinstatement costs		6,024	4,616
Deferred income tax liabilities		8,106	8,804
Bank borrowings		7,323	17,631
		<u>77,380</u>	<u>90,079</u>
<b>Current liabilities</b>			
Trade payables	<i>15</i>	41,101	36,782
Accruals and other payables	<i>16</i>	56,403	57,541
Provision for reinstatement costs		3,356	3,469
Receipts in advance		164,584	177,021
Lease liabilities		77,549	90,521
Bank borrowings		28,867	22,069
Taxation payable		1,525	1,623
		<u>373,385</u>	<u>389,026</u>
<b>Total liabilities</b>		<u>450,765</u>	<u>479,105</u>
<b>Total equity and liabilities</b>		<u>759,353</u>	<u>814,066</u>
<b>Net current liabilities</b>		<u>(108,070)</u>	<u>(123,913)</u>
<b>Total assets less current liabilities</b>		<u>385,968</u>	<u>425,040</u>

# NOTES

## 1 GENERAL INFORMATION

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

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

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and requirements of the Hong Kong Companies Ordinance (Cap.622). They have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair values at the end of each reporting period.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The Group’s current liabilities exceeded its current assets by HK\$108,070,000 as at 31 December 2022 (31 December 2021: HK\$123,913,000). The directors of the Company have reviewed the Group’s cash flow projections, which cover a period of 12 months from 31 December 2022. 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 31 December 2022. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

### 2.2 Summary of significant accounting policies

#### (a) *Amended standards, improvements and accounting guidance adopted by the Group*

The Group has applied the following amendments to standards, improvements and accounting guidance for the first time for their annual reporting period commencing 1 January 2022:

Annual Improvements Project	Annual Improvements to HKFRSs 2018-2020 cycle
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope amendments
Accounting Guideline 5 (Amendments)	Merger Accounting for Common Control Combinations

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

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

### 2.2 Summary of significant accounting policies (Continued)

#### (b) *New and amended standards and interpretation not yet adopted*

The following new standard, amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning on or after 1 January 2022 and have not been early adopted:

		<b>Effective for annual periods beginning on or after</b>
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024
HKFRS 16 (Amendments)	Lease Liabilities in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
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 and interpretation when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standard, amendments to existing standards and interpretation, none of which is expected to have material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 3 SEGMENT INFORMATION

The segment information provided to the executive directors for the years ended 31 December 2022 and 2021 is as follows:

	Year ended 31 December 2022		
	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
<b>Segment revenue</b>	<b>530,549</b>	<b>174,402</b>	<b>704,951</b>
Less: Inter-segment revenue	(13,132)	(5,101)	(18,233)
Revenue from external customers	<u>517,417</u>	<u>169,301</u>	<u>686,718</u>
<b>Segment results</b>	<b>31,285</b>	<b>20,556</b>	<b>51,841</b>
Corporate expenses			(44,175)
Finance costs, net			<u>(4,490)</u>
Profit before income tax			<b>3,176</b>
Income tax expense			<u>(5,103)</u>
<b>Loss for the year</b>			<u><u>(1,927)</u></u>
<b>Other segment items:</b>			
Capital expenditure	18,811	9,901	28,712
Depreciation and amortisation (excluding depreciation of right-of-use assets)	26,182	12,471	38,653
Depreciation of right-of-use assets	94,272	2,555	96,827
Losses on disposal of property, plant and equipment	<u>84</u>	<u>-</u>	<u>84</u>
	Year ended 31 December 2021		
	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
<b>Segment revenue</b>	<b>534,656</b>	<b>179,030</b>	<b>713,686</b>
Less: Inter-segment revenue	(9,532)	(8,158)	(17,690)
Revenue from external customers	<u>525,124</u>	<u>170,872</u>	<u>695,996</u>
<b>Segment results</b>	<b>31,090</b>	<b>23,668</b>	<b>54,758</b>
Corporate expenses			(40,993)
Share of losses of a joint venture accounted for using the equity method			(6)
Reversal of impairment on loan to an associate			625
Finance costs, net			<u>(4,885)</u>
Profit before income tax			9,499
Income tax expense			<u>(2,357)</u>
<b>Profit for the year</b>			<u><u>7,142</u></u>
<b>Other segment items:</b>			
Capital expenditure	22,311	8,316	30,627
Depreciation and amortisation (excluding depreciation of right-of-use assets)	24,894	11,400	36,294
Depreciation of right-of-use assets	94,012	3,131	97,143
Losses on disposal of property, plant and equipment	<u>127</u>	<u>10</u>	<u>137</u>



### 3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 31 December 2022 and 2021 are as follows:

	<b>Hong Kong Retail HK\$'000</b>	<b>Wholesale HK\$'000</b>	<b>Elimination HK\$'000</b>	<b>Total HK\$'000</b>
<b>As at 31 December 2022</b>				
Segment assets	490,114	246,691	(513)	736,292
Prepaid tax				8,168
Deferred income tax assets				7,210
Corporate assets				7,683
<b>Total assets</b>				<b>759,353</b>
<b>As at 31 December 2021</b>				
Segment assets	501,114	271,449	(392)	772,171
Investment in a joint venture				30
Financial asset at fair value through other comprehensive income				5,000
Prepaid tax				5,919
Deferred income tax assets				12,207
Corporate assets				18,739
<b>Total assets</b>				<b>814,066</b>

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

The Company is domiciled in the Cayman Islands while the Group operates its business primarily in Hong Kong and the PRC. For the year ended 31 December 2022, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2021: Nil).

The Group's revenue by geographical locations (as determined by the area or country in which the customer is operated) is analysed as follows:

	<b>Year ended 31 December</b>	
	<b>2022 HK\$'000</b>	2021 HK\$'000
Hong Kong	647,272	649,114
The PRC	26,439	35,861
Overseas countries	13,007	11,021
	<b>686,718</b>	<b>695,996</b>

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2022 and 2021.

### 3 SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the carrying amounts of the Group's segment assets analysed by geographical area in which the assets are located:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Hong Kong	536,663	555,269
The PRC	199,629	216,902
	<u>736,292</u>	<u>772,171</u>

Non-current assets, other than deferred income tax assets, investment in a joint venture and financial asset at FVOCI, by geographical areas are as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Hong Kong	331,258	355,561
The PRC	155,570	176,155
	<u>486,828</u>	<u>531,716</u>

### 4 REVENUE

The Group's revenue recognised at point in time during the year is as follows:

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Sale of goods	<u>686,718</u>	<u>695,996</u>

#### (a) Revenue recognition in relation to contract liabilities

As at 31 December 2022 and 2021, contract liabilities included receipts in advance and deferred revenue amounting to HK\$164,584,000 (2021: HK\$177,021,000) and HK\$3,459,000 (2021: HK\$1,765,000) respectively.

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

	2022	2021
	HK\$'000	HK\$'000
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	<u>178,786</u>	<u>160,309</u>

There is no revenue recognised during the current year (2021: same) related to performance obligations that were satisfied in prior year.

#### (b) Unsatisfied long-term contracts

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

**5 OTHER INCOME, NET**

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Government grants ( <i>Note (a)</i> )	1,880	1,400
Insurance claim	37	216
Management income from an associate	–	723
Service income ( <i>Note (b)</i> )	594	4,267
Exchange difference	313	(146)
Losses on disposal of property, plant and equipment	(84)	(137)
Others	1,917	1,075
	<hr/>	<hr/>
Total other income	<b>4,657</b>	<b>7,398</b>
	<hr/> <hr/>	<hr/> <hr/>

*Notes:*

- (a) Government subsidies of HK\$1,880,000 (2021: HK\$1,400,000) were granted from the Catering Business 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 year end date and recognised in consolidated statement of comprehensive income.
- (b) The Group has entered into a cooperation agreement with an independent third party for the provision of marketing distribution services for year ended 31 December 2021 at HK\$4,000,000. The service income is recognised when the related services are rendered.

## 6 EXPENSES BY NATURE

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Cost of inventories sold	220,197	215,666
Lease rental in respect of retail outlets ( <i>Note (a)</i> )		
– Contingent rental	516	447
Lease rental in respect of storage spaces and office premises ( <i>Note (a)</i> )	12,361	11,688
Advertising and promotional expenditure	12,059	19,627
Depreciation of property, plant and equipment	38,093	36,294
Depreciation of right-of-use assets	96,827	97,143
Amortisation of intangible asset	560	–
Communication and utilities	32,196	29,193
Employee benefit expenses (including directors' emoluments) ( <i>Note (b)</i> )	196,476	208,935
Provision for/(reversal of) obsolete inventories	434	(19)
Reversal of impairment on loan to an associate	–	(625)
Provision for impairment on financial assets	934	–
Provision for impairment on right-of-use assets	880	–
Legal and professional fees	4,845	4,418
Auditors' remuneration		
– Audit services	2,907	2,861
Tools, repair and maintenance expenses	10,675	11,300
Transportation and distribution expenses	32,347	31,716
Others	21,402	20,360
	<hr/>	<hr/>
Total cost of sales, selling and distribution costs, administrative and operating expenses and provision for/(reversal of) impairment loss on financial assets	<b>683,709</b>	<b>689,004</b>

### Notes:

- (a) These expenses included short-term leases expenses of HK\$1,030,000 (2021: HK\$1,112,000), variable leases payment expenses of HK\$1,699,000 (2021: HK\$2,226,000), and other rental-related expenses of HK\$10,148,000 (2021: HK\$8,797,000) for the year ended 31 December 2022.
- (b) For the year ended 31 December 2022, wage subsidies of HK\$15,566,000 granted from the Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees from May to July 2022 has been received. The amounts of HK\$1,577,000 and HK\$13,989,000 were recognised in “cost of sales” and “administrative and operating expenses”, respectively, and had been offset against with employee benefit expenses.

## 7 FINANCE COSTS, NET

	Year ended 31 December	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Finance income:</b>		
– Interest income	67	87
<b>Finance costs:</b>		
– Interest expenses on borrowings	(964)	(581)
– Interest and finance charges paid/payable for lease liabilities	(3,593)	(4,391)
	<u>(4,557)</u>	<u>(4,972)</u>
<b>Finance costs, net</b>	<u><b>(4,490)</b></u>	<u><b>(4,885)</b></u>

## 8 INCOME TAX EXPENSE

### Hong Kong Profits Tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2 million of estimated assessable profits of this subsidiary is taxed at 8.25% and the remaining estimated assessable profits are taxed at 16.5% (2021: Same).

### PRC Corporate Income Tax

Group entities incorporated in the PRC are subject to Corporate Income Tax (“CIT”) in accordance with the Law of the PRC on Corporate Income Tax (the “CIT Law”). Under the CIT Law, the income tax rate applicable to these subsidiaries is 25% (2021: 25%).

The amount of income tax expense represents:

	Year ended 31 December	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Current tax:</b>		
PRC CIT for the year	559	1,207
Under/(over)-provision in prior years	257	(987)
<b>Deferred income tax</b>		
Derecognition of unutilised tax loss	2,176	–
Other temporary differences	2,111	2,137
<b>Income tax expense</b>	<u><b>5,103</b></u>	<u><b>2,357</b></u>

## 9 EARNINGS PER SHARE

	Year ended 31 December	
	2022	2021
Profit attributable to owners of the Company ( <i>HK\$'000</i> )	7,472	8,223
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 ( <i>HK cents</i> )	<u>1.14</u>	<u>1.25</u>
– Diluted earnings per share ( <i>HK cents</i> )	<u>1.14</u>	<u>1.25</u>

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted earnings per share for the year ended 31 December 2022 and 2021 equal basic earnings per share as there were no potentially dilutive ordinary shares as at both years end.

## 10 DIVIDENDS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Dividends attributable to the year		
Proposed final dividend of HK0.34 cent (2021: HK0.37 cent) per ordinary share	2,230	2,427
Proposed special dividend of HK0.28 cent (2021: HK0.31 cent) per ordinary share	<u>1,837</u>	<u>2,033</u>
	<u>4,067</u>	<u>4,460</u>
Dividends paid during the year		
2020 final dividend of HK1.96 cents per ordinary share	–	12,857
2021 final and special dividends totalling HK0.68 cent per ordinary share	<u>4,461</u>	<u>–</u>
	<u>4,461</u>	<u>12,857</u>

A final dividend and a special dividend of HK0.34 cent and HK0.28 cent per ordinary share, respectively amounting to a total of HK\$4,067,000 were proposed by the Board of Directors which have to be approved by shareholders in the forthcoming annual general meeting. These proposed dividends are not reflected as a dividend payable in the consolidated statement of financial position as at 31 December 2022, but will be reflected as an appropriation of share premium for the year ending 31 December 2023.

## 11 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity investment at fair value through other comprehensive income

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Unlisted equity investment	–	5,000
	<u>–</u>	<u>5,000</u>
	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
At 1 January	5,000	–
Transfer from investment (Note 12)	–	5,000
Change in fair value recognised in other comprehensive income	(5,000)	–
	<u>(5,000)</u>	<u>–</u>
At 31 December	–	5,000
	<u>–</u>	<u>5,000</u>

At the beginning of the year ended 31 December 2021, the Group had an investment in an associate namely HomePlus (Hong Kong) Limited. On 4 May 2021, the Group's representative resigned from the board of directors of the investee, and management confirmed to the co-investors and the co-investors acknowledged that the Group will not appoint any replacement after the resignation of its representative. In addition, the Group exercised its rights of dilution and elected not to subscribe to the second subscription. Management considered that the Group ceased to have significant influence over the investee and the investment is not held for trading, the Group has irrevocably elected to recognise the investment as FVOCI since 4 May 2021.

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 at 4 May 2021, being the date of initial recognition, and 31 December 2021. The fair value of the financial assets at FVOCI was measured at level 3 of fair value hierarchy.

During the year ended 31 December 2022, the investee issued and allotted 120,000,000 ordinary shares to the existing shareholders. The Group did not subscribe any shares and hence, its equity interests have been diluted from 5% to 2.27%.

The business operations of the investee gradually scaled back in the second half of 2022. In late December 2022, members of the investee have decided to cease the business operations in March 2023 which is approved by a written resolution. Considering its financial position and minimal operations before the cessation of business in early 2023, the valuation of the investee is assessed to be nil as at 31 December 2022.

## 12 INVESTMENT IN A JOINT VENTURE

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Investment in a joint venture	–	30
	<u>–</u>	<u>30</u>
	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
As 1 January	30	36
Capital injection	–	5,000
Share of losses of a joint venture	–	(6)
Return of capital from a joint venture upon deregistration (Note (a))	(30)	–
Transfer to financial assets at FVOCI (Note 11)	–	(5,000)
	<u>(30)</u>	<u>(5,000)</u>
As 31 December	–	30
	<u>–</u>	<u>30</u>

## 12 INVESTMENT IN A JOINT VENTURE (CONTINUED)

### Notes:

- (a) The Group held 37.5% shareholding interests in Nova FinTech Limited as at 31 December 2021 which has been dissolved on 17 June 2022.
- (b) The Group's joint venture is an unlisted corporate entity whose quoted market price is not available.
- (c) There are no contingent liabilities relating to the Group's investment in the joint venture and this entity also had no material contingent liabilities.

## 13 TRADE RECEIVABLES

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Trade receivables from third parties	58,896	46,512
Trade receivables from a related party	428	376
	<u>59,324</u>	<u>46,888</u>
Less: Provision for impairment of trade receivables	(898)	(543)
	<u>58,426</u>	<u>46,345</u>

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (2021: 30 to 105 days). As at 31 December 2022 and 2021, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Less than 30 days	19,413	19,001
31-90 days	30,517	23,280
Over 90 days	8,496	4,064
	<u>58,426</u>	<u>46,345</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. The trade receivables have been grouped based on the business segments, geographical locations and credit risk characteristics to provide the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for separate provision for impairment allowance.



### 13 TRADE RECEIVABLES (CONTINUED)

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	543	3,241
Provision for impairment of trade receivables	355	–
Receivables written off during the year as uncollectible	–	(2,698)
<b>At 31 December</b>	<b>898</b>	<b>543</b>

The Group does not hold any collateral as security.

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

	As at 31 December	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
HK\$	55,231	43,598
RMB	3,195	2,747
	<b>58,426</b>	<b>46,345</b>

### 14 SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares <i>HK\$'000</i>
<b>Authorised:</b>		
At 1 January 2021, 31 December 2021 and 31 December 2022	1,000,000,000	10,000
	Number of shares	Nominal value of ordinary shares <i>HK\$'000</i>
<b>Issued and fully paid:</b>		
At 1 January 2021, 31 December 2021 and 31 December 2022	655,944,000	6,559

### 15 TRADE PAYABLES

	As at 31 December	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	41,101	36,782

## 15 TRADE PAYABLES (CONTINUED)

As at 31 December 2022 and 2021, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	17,886	19,082
31 to 60 days	15,940	10,502
61 to 90 days	4,519	4,469
Over 90 days	2,756	2,729
	<u>41,101</u>	<u>36,782</u>

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

	As at 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	26,427	21,380
RMB	14,674	15,402
	<u>41,101</u>	<u>36,782</u>

## 16 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals for employee benefit expenses	17,542	17,898
Accruals for marketing and promotional expenses	2,281	2,256
Refund liabilities for sales rebate	1,728	3,548
Rental and related expenses payable	1,926	2,917
Office and utilities expenses payable	4,048	3,539
Deferred revenue	3,459	1,765
Consideration payable for property, plant and equipment acquired	7,302	6,890
Accruals for transportation and delivery charges	2,147	2,571
Accruals for audit fee	2,264	2,287
Other accruals and other payables	13,706	13,870
	<u>56,403</u>	<u>57,541</u>

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

	As at 31 December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	44,115	43,923
RMB	12,288	13,618
	<u>56,403</u>	<u>57,541</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

Over the 2022 financial year, the Group was confronted by weak consumer demand both in Hong Kong and Mainland China resulting from protracted COVID-19 control measures. The business conditions were in fact more challenging than what was experienced in 2021 and even 2020. Against a highly difficult macro environment, the Group strived to maintain a relatively stable sales performance overall.

During the year ended 31 December 2022, the Group's revenue amounted to HK\$686.7 million (2021: HK\$696.0 million), down 1.3% year-on-year. Gross profit slipped by 2.6% to HK\$406.3 million (2021: HK\$417.3 million), and gross profit margin edging downwards to 59.2% (2021: 60.0%), mainly due to the decline in revenue and rise in raw material costs and utility expenses. Consequently, profit attributable to owners of the Company decreased by 9.1% to HK\$7.5 million (2021: HK\$8.2 million).

The Group remains in a healthy financial position and has stable operating cash flows. It holds sufficient cash and cash equivalents as well as unutilised banking facilities, amounting to approximately HK\$103.9 million and HK\$64.2 million, respectively, as at 31 December 2022 (31 December 2021: HK\$116.7 million and HK\$72.2 million, respectively).

In appreciation of shareholders' support for the Group, the Board has resolved to recommend a final dividend and a special dividend of HK0.34 cent and HK0.28 cent per ordinary share, respectively, totalling HK0.62 cent per ordinary share (2021: final dividend of HK0.37 cent per ordinary share and special dividend of HK0.31 cent per ordinary share).

### **BUSINESS SEGMENT ANALYSIS**

#### **Hong Kong Retail**

The Hong Kong retail business, which is the Group's largest revenue contributor, generated HK\$517.4 million (2021: HK\$525.1 million) in revenue during the financial year – down 1.5% year-on-year, and accounted for 75.3% of the Group's total revenue. Store traffic and same-store sales experienced a decline, as rigorous social distancing measures were introduced in early 2022, and they remained impacted despite the gradual lifting of COVID-19 restrictions during the year. At the same time, numerous physical exhibitions and corporate sales booths were also suspended during the fifth wave of the pandemic. Still, segment profit slightly increased by 0.6% year-on-year to HK\$31.3 million (2021: HK\$31.1 million), mainly due to the securing of rental concessions, and the receipt of more government grants from pandemic relief measures compared with 2021, comprising funds from the Employment Support Scheme and the Catering Business Subsidy Scheme.

The Group has maintained its standing as the largest herbal retailer in Hong Kong based on retail network size, with 120 self-operated shops as at 31 December 2022, including 10 HFT Life stores which are positioned for attracting a young demographic. During the financial year, the Group opened a total of seven new shops, including three HFT Life café concept stores at Hong Kong Science Park, Hong Kong University of Science and Technology and a shopping mall, respectively, as well as four Hung Fook Tong shops in MTR stations and a shopping mall. In combating the challenging retail conditions, the Group was able to secure rental concessions, as well as more preferable terms for the majority of its lease renewals.

Moreover, to specifically address the decline in number of transactions during the pandemic, the Group ramped up its marketing efforts and launched new products to promote spending, resulting in a 13% rise in average spending per transaction by JIKA CLUB (自家 CLUB) members as compared with 2021.

With health and wellbeing a major concern among consumers since COVID-19, the Group has sought to address this concern by introducing more healthy product options. Its new sugar-free herbal tea series was among the highlights of the year, proving highly popular among customers. The Group has also continued to be a trusted friend of new mothers by offering an expanded collection of food items for those who are pregnant or in postpartum confinement, such as the Chicken Essence Series and the new Premium Stewed Pork Trotter and Ginger in Sweet Vinegar (至尊豬腳小黃薑醋).

Separately, to capitalise on the Chinese holiday seasons, an array of festive delicacies was introduced including a brand-new organic turnip cake, specialty mooncake and Lunar New Year dishes, i.e. Buddha's Temptation (極品鮑魚遼參佛跳牆) and Pun Choi, to tap the gift giving market.

With respect to the Group's HFT Life café concept stores, the brand has enhanced its product offerings to bolster its appeal among aspirational young consumers. This has included a series of cakes and desserts directly imported from Japan as well as other handmade pastries. Moreover, a new line of specialty coffees, pour over coffees and special handmade drinks have been introduced.

On the marketing front, the Group took advantage of the disbursement of consumption vouchers by the Hong Kong Government in April, August and October to introduce an attractive combination of offers that proved popular among customers. Also achieving satisfactory results were joint promotions initiated with banking institutions and other partners. As social distancing measures were gradually relaxed in the second half year, the Group participated in a number of physical exhibitions and expositions such as the Hong Kong Brands and Products Expo and the HKTDC Food Expo, in addition to online expos with resellers and business partners. During the first half year, the Group also adjusted the price of certain products in order to partly offset the higher production costs.

As always, the Group has been dedicated to acquiring and engaging with members while concurrently driving digitalisation. During the financial year, the Group presented a variety of exclusive discount offers and privileges to attract and retain members. Such efforts enabled the JIKA CLUB to increase its membership numbers to over 1,258,000 as at 31 December 2022 – equating to an increase of around 99,000 members during the financial year. On the digitalisation front, the Group rolled out a number of incentives, including electronic discount coupons launched in the third quarter to promote the download and use of the Hung Fook Tong mobile application (“APP”). Towards the same objective, it also promoted the use of e-coupons and the “JIKA PAY” e-Card via the APP. This strategy to accelerate digitalisation clearly paid off, as the number of APP downloads increased by 42% year-on-year, and over 30% of total member transactions were completed through the APP.

As for the new “JIKA ON!” (自家 ON!) online marketplace – launched at the end of 2021, the Group has dedicated effort towards boosting member registration and promoting spending as well as expanding its product offerings. To realise the first two objectives, it sought to attract JIKA CLUB members and other consumers to register via special offers and promotions at shops, expos and online channels. For expanding its product range, the Group introduced healthy food and supplements, imported food and pet products that appeal to health-conscious and family-oriented customers.

## **Wholesale**

The wholesale segment recorded revenue of HK\$169.3 million (2021: HK\$170.9 million), dipping by 0.9% year-on-year, due to a decline in business in Mainland China which was impacted by the pandemic, as well as the absence of a one-off financial income as recorded in 2021. Owing to the revenue decline and the rise in production costs, segment profit retreated 13.1% to HK\$20.6 million (2021: HK\$23.7 million).

### ***Hong Kong***

In Hong Kong, the Group's wholesale operation managed to overcome generally lacklustre demand to achieve 5.8% year-on-year revenue growth to HK\$142.9 million (2021: HK\$135.0 million). This was achieved through higher sales from key accounts on the back of new beverage product launches, as well as the securing of bulk commercial orders. Its partnership with DCH Foods, struck during the financial year, enabled the Group to gain access to an expanded sales channels spanning a number of DCH Finest or DCH Foods outlets. The Group leveraged the opportunity to introduce its herbal drinks, soup packs and tortoise plastron jellies at these outlets.

The Group has also tapped various exciting cross-brand collaborations to drive growth. Its partnership with PARKnSHOP Supermarket led to the launch of a series of new co-branded herbal drinks, which are able to cater for the diverse needs of customers. In addition, an extended variety of products such as ambient temperature soup packs, stewed pork trotter and ginger, and tortoise plastron jellies were introduced to PARKnSHOP stores, resulting in satisfactory sales. Similarly, Hung Fook Tong partnered with TamJai Yunnan Mixian to roll out a special drink (解辣山楂酸棗茶) to raise brand awareness and promote sales.

In terms of product packaging, the Group launched a series of art-theme special edition bottled drinks in July. Featuring different visual and cultural elements, the new packaging designs added to the appeal of drinks already favoured by customers, thus reinforcing the Group's brand equity.

### ***Mainland China***

Owing to stringent COVID-19 control measures, consumer sentiment in Mainland China was severely impacted during the financial year. In addition, there was a one-off financial income recorded in 2021 of approximately HK\$5.5 million that did not recur in the latest financial year. Due to the aforementioned, revenue in Mainland China contracted by 26.3% to HK\$26.4 million (2021: HK\$35.9 million).

Despite the headwinds encountered, the Group sought to strengthen its presence in the Mainland China market, particularly Southern China, by leveraging its partnership with a national distributor. Consequently, the Group's products were available at supermarkets and convenience stores in Guangzhou, Dongguan, Shenzhen, Shanghai, etc. including at Ole' Supermarket, FamilyMart, 7-Eleven, C-store, Bailihui, and Polison convenience stores. In addition, the Group penetrated second-tier cities in Guangdong Province such as Yang Jiang and Shan Wei in 2022.

Fully aware of the growing importance of online sales channels, the Group continued to promote its products via online platforms, such as JD.com, Taobao, Tmall and Meituan. This has been underpinned by greater promotions on increasingly popular social media platforms such as Douyin and Xiao Hong Shu.

## ***Other Markets***

The Group strived to capture opportunities from overseas markets in view of weak local sentiment. Sales from markets such as the United States, Canada and Australia began a gradual recovery as the impact of the COVID-19 pandemic started to recede respectively. Of note, particularly favourable sales growth was experienced in Malaysia and the United Kingdom. In view of the potential that overseas markets hold, the Group will continue to prudently expand into new markets while reinforcing existing markets; remaining mindful of the lingering effects of COVID-19 and high logistics costs.

## **Doubles Down on Sustainability**

Fully aware of the growing importance of sustainability, the Group has intensified efforts at devising sustainable development strategies and rolled out a number of Environmental, Social and Governance (“ESG”) measures during the financial year. To promote work-life balance among employees and create a more welcoming workplace, the Group enhanced its family-friendly work policies, which included allowing office staff to work from home for one day per week and extending its flexible working hours arrangement, along with other family-friendly measures, all of which have been well received by staff.

With regard to environmental sustainability, the Group began using rPET (“Recycled Polyethylene Terephthalate”) in the production of certain beverage bottles since 2022 so as to reduce carbon emissions. The Group has also commenced the gradual phasing out of plastic tableware at all of its 120 stores – switching to wooden or paper counterparts starting from 1 January 2023. This new measure aims to cut plastic consumption at the source, and in fact will allow the Group to reduce the use of single-use plastics by an estimated 40 tonnes in 2023. The Group trusts that the effort will resonate with customers, encouraging them to pursue a sustainable lifestyle.

## **PROSPECTS**

While the 2023 year has started positively with Hong Kong lifting most of its COVID-19 restrictions in late December 2022, and its borders with Mainland China have been gradually opening in phases from January, the Group remains highly cautious about its retail performance in the coming first half year. According to a forecast by the Hong Kong Retail Management Association, a sharp rise in retail sales from inbound visitors is unlikely to materialise until the second half of 2023 at the earliest. Moreover, retailers must not ignore the uncertainties brought by rising geopolitical tensions, inflationary cost pressure, higher interest rates and the looming possibility of a global economic recession.

In line with the management’s prudence towards the market, the Group will stay vigilant as it navigates through market uncertainties under the “New Normal”. It will leverage its stringent cost controls, such as the streamlining of its supply chain and cost structures, to maintain a healthy financial position.

The Group will also focus on strengthening its market presence and penetration efforts to tap new revenue streams. It will do so via product development, sales channel expansion and geographical expansion such as in Mainland China and overseas markets.



## **Hong Kong Retail**

With the reopening of borders, a gradual recovery in overall consumer sentiment is expected. To maintain the Group's market leadership, it will be reinforcing its robust store network with the opening of approximately eight new stores in 2023, including at least one HFT Life, potentially at a shopping mall. The openings will complement a strategically sound retail network, which includes the recently reopened stores at Lok Ma Chau and Lo Wu MTR stations. While strengthening its shop presence, the Group will at the same time continue negotiating with landlords for favourable rental terms so that its presence is financially sound.

The Group will also bolster its product portfolio by introducing more herbal teas with low-sugar or sugar-free formulas in view of their encouraging sales performance. Furthermore, the Group will develop more long shelf-life ambient products, as well as a larger selection of meal options for those in postpartum confinement. At the same time, to add to the appeal of HFT Life, the Group will be rolling out more bakery and dessert items in view of positive feedback, as well as special coffees and drinks.

In respect of memberships, the Group will continue to implement its strategy for increasing JIKA CLUB members, building loyalty and accelerating digitalisation. The Group will be providing exclusive offers and joint promotions for members, as well as employing referral programmes to recruit new members. Moreover, customised promotions will be extended to members via the APP to encourage their patronage while accelerating the APP's download. Similarly, to boost registration and the use of the JIKA ON! online platform, the Group will introduce new offerings, including more healthy food and ready-to-eat options.

## **Wholesale**

### ***Hong Kong***

Exploring more cross-brand partnerships and introducing new products will be among the objectives of the Hong Kong wholesale operation in the coming year. The partnership arrangements will include product development and marketing, as evidenced by the rollout of two more flavours of Hung Fook Tong x PARKnSHOP Supermarket drinks in the first quarter of 2023. The Group will also introduce a new array of herbal drinks or existing products that feature new packaging with special themes.

Going forward, the Group will continue to negotiate with partners so as to tap more sales channels, including physical and online sales points, to further penetrate the local market.

### ***Mainland China***

As Mainland China has been lifting many of its pandemic control measures near the end of 2022, consumer sentiment and shop traffic are expected to improve in 2023. It is therefore the correct time to double down on sales and marketing efforts to capture opportunities. The Group will continue to work closely with a national distributor to efficiently introduce more long shelf-life beverage products. In addition, it will nurture ties with key accounts to increase penetration of the Group's fresh beverage products in convenience stores and supermarkets. Moreover, greater resources will be allocated to boosting online platform sales, which will be supported by promotions on online and social media platforms.

## ***Other Markets***

More emphasis will be placed on tapping overseas markets as the Group seeks new revenue streams. With the shadow of the pandemic gradually lifting from many of the Group's overseas markets, it expects sales to pick up in 2023. To drive sales growth, particularly in the United Kingdom where there has been growing demand for the Group's health drinks and products, it aims to establish more sales channels in the country. The Group will also work on further penetrating the Australia market. In addition, the Group will be eyeing new markets, such as South Korea, Japan and Thailand, where discussions with relevant distributors have already commenced.

## **CONCLUSION**

Looking ahead, Hung Fook Tong will continue to sharpen its competitive edges by leveraging the Group's ability to tap new markets and introduce high-quality products, with the ultimate objective of generating long-term sustainable returns for its shareholders.

## **FINANCIAL REVIEW**

### **Revenue**

For the year ended 31 December 2022, the Group's revenue amounted to HK\$686.7 million, representing a decrease of 1.3% from HK\$696.0 million in 2021 due to negative impact of COVID-19 control measures in both Hong Kong and Mainland China. Revenue from Hong Kong retail operation decreased to HK\$517.4 million, representing a decrease of 1.5% from HK\$525.1 million in 2021. Revenue from wholesale business has also decreased to HK\$169.3 million, representing a decrease of 0.9% from HK\$170.9 million in 2021.

### **Cost of Sales**

For the year ended 31 December 2022, the Group's cost of sales amounted to HK\$280.4 million, representing an increase of 0.6% from HK\$278.7 million in 2021. As a percentage of revenue, cost of sales was 40.8% and 40.0% in 2022 and 2021 respectively.

### **Gross Profit and Gross Profit Margin**

For the year ended 31 December 2022, the Group's gross profit amounted to HK\$406.3 million, representing a decrease of 2.6% from HK\$417.3 million in 2021. The Group's gross profit margin decreased by 0.8 percentage point to 59.2% as compared to 60.0% in 2021. The decline was mainly due to higher raw material costs and utility expenses.

### **Staff Costs**

For the year ended 31 December 2022, the Group's staff costs amounted to HK\$196.5 million, representing a decrease of 6.0% from HK\$208.9 million in 2021. The decrease was mainly due to the receipt of government grants from the Employment Support Scheme in 2022. The staff costs-to-revenue ratio was 28.6% as compared to 30.0% in 2021.



## **Rental Expenses**

For the year ended 31 December 2022, rental expenses in relation to its retail shops in Hong Kong (being the aggregate of lease rental in respect of retail outlets, depreciation of right-of-use assets for shop properties and the interest expense arisen from lease liabilities) amounted to HK\$97.3 million, representing a decrease of 1.5% from HK\$98.7 million in 2021 as a result of rental concessions granted by certain landlords. Rental expenses-to-revenue ratio for the Hong Kong retail shops was 18.8% in both 2022 and 2021.

## **Depreciation**

For the year ended 31 December 2022, the depreciation of property, plant and equipment of the Group amounted to HK\$38.1 million, representing an increase of 5.0% from HK\$36.3 million in 2021. The increase was mainly due to the depreciation of leasehold improvements for opening new shops and revamping existing retail shops. This accounted for 5.5% and 5.2% respectively in percentage to revenue in 2022 and 2021.

## **Profit Attributable to Owners of the Company**

Profit attributable to owners of the Company for the year ended 31 December 2022 was HK\$7.5 million, representing a decrease of 9.1% from HK\$8.2 million in 2021. The net profit margin (calculated as profit attributable to owners of the Company for the period as a ratio of revenue) for the year ended 31 December 2022 was 1.1%, as compared to 1.2% in 2021.

Earnings per share for profit attributable to owners of the Company for the year ended 31 December 2022 amounted to HK1.14 cents, as compared to HK1.25 cents in 2021.

## **Capital Expenditure**

During the year ended 31 December 2022, capital expenditure amounted to HK\$28.7 million (2021: HK\$30.6 million). This amount was mainly used for the opening of new shops, revamping of existing retail shops, acquisition of production facilities in Tai Po plants and construction of the production plant in Kaiping City, Mainland China.

## **Liquidity and Financial Resources Review**

As at 31 December 2022, the Group had bank deposits and cash balance amounted to HK\$103.9 million (31 December 2021: HK\$116.7 million).

As at 31 December 2022, the gearing ratio of the Group was 0.53 (31 December 2021: 0.56), which was calculated based on total debts including bank borrowings and lease liabilities divided by equity attributable to owners of the Company. Excluding the lease liabilities from total debts, the gearing ratio was 0.11 (31 December 2021: 0.12).

As at 31 December 2022, the Group had total banking facilities of HK\$103.2 million (31 December 2021: HK\$113.7 million) of which HK\$39.0 million (31 December 2021: HK\$41.5 million) had been utilised.

As at 31 December 2022, the Group's current liabilities exceeded its current assets by HK\$108.1 million (31 December 2021: HK\$123.9 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons and credits to customers in Hong Kong of HK\$164.6 million (31 December 2021: HK\$177.0 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\$56.5 million (31 December 2021: HK\$53.1 million) and current ratio of 1.27 (31 December 2021: 1.25).

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 financial year ended 31 December 2022.

### **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 31 December 2022, the Group employed approximately 901 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on years of service and performance appraisal.

During the year ended 31 December 2022, various training activities, such as orientation on retail shop and back office operations, customer services and sales skills, product knowledge and retail operations, have been conducted to improve the quality of frontline services, as well as enhance customer experience and to ensure the smooth and effective operation of the Point-of-Sales ("POS") system. A supervisor trainee program was also implemented to attract production talents, enhancing the leadership skills of the participants including their professional and managerial techniques as well as their knowledge in machinery monitoring and production processes.

## OTHER INFORMATION

### Dividends

A final dividend in respect of the year ended 31 December 2022 of HK0.34 cent per ordinary share, was proposed by the Board. In addition, to reward the continuous support of our shareholders, the Board also proposed a special dividend of HK0.28 cent per ordinary share. The proposed final and special dividends, amounted to a total of HK\$4,067,000 with dividend payout ratio of 0.55, have to be approved by shareholders in the forthcoming annual general meeting (“AGM”). These proposed dividends are not reflected as dividend payable in the consolidated statement of financial position, but will be reflected as an appropriation of share premium for the year ending 31 December 2023.

Subject to the approval of the shareholders at the forthcoming AGM, the final dividend and the special dividend will be payable on or about Friday, 7 July 2023 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Friday, 9 June 2023.

### Closure of Register of Members

For determining the entitlement to attend and vote at the AGM to be held on Thursday, 1 June 2023, the register of members of the Company will be closed from Monday, 29 May 2023 to Thursday, 1 June 2023, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Thursday, 25 May 2023.

For determining the entitlement to the proposed final dividend and special dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Thursday, 8 June 2023 to Friday, 9 June 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and special dividend as stated, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Branch Share Registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 7 June 2023.

### Corporate Governance Code

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the year ended 31 December 2022.

### Model Code for Securities Transactions

The Company has adopted a code of conduct (the “**Code of Conduct**”) based on the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “**Model Code**”). For the year ended 31 December 2022, all of the Directors confirmed that they have complied with the required standards set out in the Code of Conduct.

## **Purchase, Sale or Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2022.

## **Audit Committee**

The Company has established an audit committee (the “**Audit Committee**”) which currently consists of all three independent non-executive directors of the Company with written terms of reference which deal clearly with its authority and duties.

The Group's annual results for the year ended 31 December 2022 have been reviewed by the Audit Committee.

## **Scope of Work of PricewaterhouseCoopers**

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## **Publication of Annual Report**

The annual report for the year ended 31 December 2022 containing all relevant information required by the Listing Rules will be despatched to shareholders of the Company and published on the designated website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.hungfooktong.com](http://www.hungfooktong.com)) in due course.

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

Hong Kong, 27 March 2023

*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.*