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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

HIGHLIGHTS

- Revenue for the six months ended 30 June 2023 ("**1H2023**") decreased by 2.4% to HK$331.7 million, when compared with HK$340.0 million for the six months ended 30 June 2022 ("**1H2022**").

  – Revenue from the Hong Kong retail business decreased by 4.3% to HK$251.7 million (1H2022: HK$262.9 million), with a retail network comprising 119 self-operated shops in Hong Kong as at 30 June 2023.

  – Revenue from the wholesale business increased by 3.8% to HK$80.0 million (1H2022: HK$77.1 million).

- Gross profit for 1H2023 decreased by 4.1% to HK$193.9 million (1H2022: HK$202.2 million), while gross profit margin for 1H2023 decreased by 1.0 percentage point to 58.5% (1H2022: 59.5%).

- Loss attributable to owners of the Company for 1H2023 was HK$9.6 million as compared with a profit of HK$8.1 million in 1H2022.

- Loss per share for loss attributable to owners of the Company for 1H2023 was HK1.47 cents (1H2022: earnings per share of HK1.23 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 2023 together with comparative figures for the corresponding period in 2022.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		(Unaudited)	
		Six months ended 30 June	
		2023	2022
	Note	***HK$'000***	*HK$'000*
			(Restated)
Revenue	*3,4*	**331,678**	339,998
Cost of sales	*5*	**(137,771)**	(137,848)
Gross profit		**193,907**	202,150
Other income and other gains, net	*4*	**2,890**	2,871
Selling and distribution costs	*5*	**(26,268)**	(28,759)
Administrative and operating expenses	*5*	**(182,070)**	(170,240)
Reversal of impairment loss on financial assets		**961**	–
Operating (loss)/profit		**(10,580)**	6,022
Finance income		**58**	38
Finance costs		**(3,223)**	(2,111)
Finance costs, net		**(3,165)**	(2,073)
(Loss)/profit before income tax		**(13,745)**	3,949
Income tax expense	*6*	**(159)**	(1,021)
(Loss)/profit for the period		**(13,904)**	2,928
(Loss)/profit attributable to:			
Owners of the Company		**(9,649)**	8,074
Non-controlling interests		**(4,255)**	(5,146)
		(13,904)	2,928

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	(Unaudited) Six months ended 30 June **2023** ***HK$'000***	2022 *HK$'000* (Restated)
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss			
– Currency translation differences		**(4,134)**	(7,937)
Item that will not be reclassified to profit or loss			
– Change in fair value of financial asset at fair value through other comprehensive income		**–**	(1,729)
– Remeasurements of employee benefit obligations		**75**	–
Other comprehensive loss, net of tax		**(4,059)**	(9,666)
Total comprehensive loss for the period		**(17,963)**	(6,738)
Total comprehensive loss attributable to:			
Owners of the Company		**(13,633)**	(1,513)
Non-controlling interests		**(4,330)**	(5,225)
		(17,963)	(6,738)
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company			
– Basic and diluted (HK cents)	*7*	**(1.47)**	1.23

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Note	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**270,707**	285,637
Right-of-use assets		**193,844**	177,173
Intangible assets		**2,386**	2,707
Prepayments and deposits		**19,905**	21,311
Deferred income tax assets		**7,784**	7,645
		494,626	494,473
Current assets			
Inventories		**45,539**	55,064
Trade receivables	*10*	**63,753**	58,426
Prepayments, deposits and other receivables		**44,354**	39,751
Prepaid tax		**708**	8,168
Cash and cash equivalents		**90,866**	103,906
		245,220	265,315
Total assets		**739,846**	759,788
EQUITY			
Equity attributable to owners of the Company			
Share capital		**6,559**	6,559
Reserves		**296,594**	314,294
		303,153	320,853
Non-controlling interests		**(18,538)**	(14,208)
Total equity		**284,615**	306,645

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2023

	Note	**As at 30 June 2023** *HK$'000* **(Unaudited)**	As at 31 December 2022 *HK$'000* (Restated)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**69,118**	55,927
Provision for reinstatement costs		**5,981**	6,024
Deferred income tax liabilities		**8,109**	8,106
Bank borrowings		**–**	7,323
Employee benefit obligations		**3,583**	3,348
		86,791	80,728
Current liabilities			
Trade payables	*11*	**38,544**	41,101
Accruals and other payables		**51,609**	55,433
Provision for reinstatement costs		**3,311**	3,356
Receipts in advance		**150,246**	164,584
Lease liabilities		**81,455**	77,549
Bank borrowings		**42,463**	28,867
Tax payable		**812**	1,525
		368,440	372,415
Total liabilities		**455,231**	453,143
Total equity and liabilities		**739,846**	759,788
Net current liabilities		**(123,220)**	(107,100)
Total assets less current liabilities		**371,406**	387,373

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 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 30 August 2023.

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 2023 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 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The Group's current liabilities exceeded its current assets by HK$123,220,000 as at 30 June 2023 (31 December 2022: HK$107,100,000). The directors of the Company have reviewed the Group's cash flow projections, which covers a period of 12 months from 30 June 2023. 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 2023 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 2022, 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 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

2.2.1 Adoption of new accounting policy in the current interim period

(a) New and amended standards adopted by the Group

The following new standard and amendments to existing standards are effective to the Group for accounting periods beginning on or after 1 January 2023:

HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies
HKAS 8 (Amendments)	Definition of Accounting Estimates
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
HKAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules
HKFRS 17	Insurance Contracts

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

(b) Amended standards and interpretation have been issued but not yet adopted

The following amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning on or after 1 January 2023 and have not been early adopted:

		Effective for accounting periods beginning on or after
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
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	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 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 amendments to existing standards and interpretation, 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.

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

2.2 Summary of significant accounting policies (continued)

2.2.2 Employee benefits

(a) Defined benefit obligation – long service payment

The Group's net obligation in respect of long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed by using the projected unit credit method by a qualified actuary. The cost of providing the long service payment liabilities is charged to profit or loss so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements by employees accrued under the Group's defined contribution retirement scheme that is attributable to contributions made by the Group as deemed employee contributions. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to other comprehensive income in the period in which they arise, respectively. As a result of plan amendment, a past service cost, arising from the change in the present value of the defined benefit obligation for employee service in prior periods on the date of plan amendment, is recognised as an expense.

2.3 Change in accounting policy on long service payments

In June 2022, the Government of the Hong Kong Special Administrative Region ("**HKSAR**") gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "**Amendment Ordinance**"). The Amendment Ordinance abolishes the use of the accrued benefits derived from employers' mandatory contributions under the Mandatory Provident Fund ("**MPF**") System to offset severance payment ("**SP**") and long service payment ("**LSP**") (the "**Abolition**"). In April 2023, the HKSAR Chief Executive John Lee announced that the Abolition will officially take effect on 1 May 2025 (the "**Transition Date**"). The Amendment Ordinance has two effects: (i) the accrued benefits derived from an employer's mandatory MPF contributions may no longer be used to offset LSP/SP in respect of the employment period after the Transition Date (the "**post-transition LSP**"); and (ii) the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP/SP in respect of the employment period before the Transition Date (the "**pre-transition LSP**").

In July 2023, the HKICPA issued an "Educational Guidance on the Accounting Implications of the Abolition of the MPF-LSP Offsetting Mechanism in Hong Kong" (the "**Guidance**"). The Guidance provides clarification on the accounting for the mechanism, in particular the interaction between the employer's MPF contributions (which have attributes of a defined contribution plan) and the entity's LSP obligation (which has attributes of a defined benefit plan). The Guidance provides that following the enactment of the Amendment Ordinance, the amended LSP scheme is no longer a 'simple type of contributory plans' to which the International Accounting Standards Board (the "**IASB**") had intended the practical expedient in HKAS 19.93(b) to apply. This is because the contributions are no longer 'linked solely to the employee's service in that period' since mandatory employer MPF contributions after the Transition Date can still be used to offset pre-transition LSP. As such, it would no longer be appropriate to view the contributions as 'independent of the number of years of service' which is the qualifying criterion for the practical expedient in HKAS 19.93(b). In addition, as the Amendment Ordinance was enacted in June 2022, the 'year of enactment of the Amendment Ordinance' is the financial year that includes June 2022.

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

2.3 Change in accounting policy on long service payments (continued)

Prior to 1 January 2023, the Group accounted for the offsetting mechanism by applying the practical expedient in HKAS 19.93(b). The Group has changed its accounting policy having regard to the Guidance. In applying the requirements in HKAS 19.93(a) following the Abolition and taking into consideration of the two effects of the Amendment Ordinance, management re-measures the projected negative service cost, which represents the deemed employee contributions, over the entire expected service period of the employees and reattribute the net cost of the LSP obligation on a straight-line basis from the date when services by employees first lead to benefits in terms of the LSP legislation, with a catch-up adjustment for past service cost and a corresponding increase in the LSP obligation in the year of enactment of the Amendment Ordinance. The adjustment is recognised as a past service cost in profit or loss in accordance with HKAS 19.94(a) as the Abolition as not contemplated in the original LSP legislation.

The change in accounting policy has been applied by restating the balances as at 31 December 2022, and the results for the six months ended 30 June 2022:

	As previously reported *HK$'000*	**Effect of change** *HK$'000*	**As restated** *HK$'000*
Condensed Consolidated Interim Statement of Comprehensive Income for the six months ended 30 June 2022			
Cost of sales	(137,206)	(642)	(137,848)
Administrative and operating expenses	(168,378)	(1,862)	(170,240)
Profit before tax	6,453	(2,504)	3,949
Income tax expenses	(1,434)	413	(1,021)
Profit after tax	5,019	(2,091)	2,928
Profit attributable to Owners of the Company	10,165	(2,091)	8,074
Consolidated Statement of Financial Position as at 31 December 2022			
ASSETS			
Deferred income tax assets	7,210	435	7,645
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	–	3,348	3,348
Current liabilities			
Accruals and other payables	56,403	(970)	55,433
EQUITY			
Reserves	316,237	(1,943)	314,294

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

2.3 Change in accounting policy on long service payments (continued)

The change in accounting policy affected the following items in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2023 and the condensed consolidated interim statement of financial position as at 30 June 2023:

	Under previous accounting policy	**Effect of change**	**As reported**
	HK$'000	*HK$'000*	*HK$'000*
Condensed Consolidated Interim Statement of Comprehensive Income for the six months ended 30 June 2023			
Cost of sales	(137,674)	(97)	(137,771)
Administrative and operating expenses	(181,917)	(153)	(182,070)
Finance costs	(3,163)	(60)	(3,223)
Loss before tax	(13,435)	(310)	(13,745)
Income tax expenses	(210)	51	(159)
Loss after tax	(13,645)	(259)	(13,904)
Loss attributable to Owners of the Company	(9,390)	(259)	(9,649)
Other comprehensive income	–	75	75
Condensed Consolidated Interim Statement of Financial Position as at 30 June 2023			
ASSETS			
Deferred income tax assets	7,298	486	7,784
LIABILITIES			
Non-current liabilities			
Employee benefit obligations	–	3,583	3,583
Current liabilities			
Accruals and other payables	52,579	(970)	51,609
EQUITY			
Reserves	298,721	(2,127)	296,594

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, intangible assets, inventories, trade receivables, prepayments, deposits and other receivables and cash and cash equivalents. They exclude prepaid tax, deferred income tax assets and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment and intangible assets for the six months ended 30 June 2023 and 2022.

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, 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 2023 and 2022 respectively.

The segment information provided to the executive directors for the six months ended 30 June 2023 and 2022 are as follows:

	(Unaudited) Six months ended 30 June 2023		
	Hong Kong Retail *HK$'000*	**Wholesale** *HK$'000*	**Total** *HK$'000*
Segment revenue	**257,379**	**81,272**	**338,651**
Less: Inter-segment revenue	**(5,696)**	**(1,277)**	**(6,973)**
Revenue from external customers	**251,683**	**79,995**	**331,678**
Segment results	**3,824**	**9,444**	**13,268**
Corporate expenses *(Note (a))*			**(23,848)**
Finance costs, net			**(3,165)**
Loss before income tax			**(13,745)**
Income tax expense			**(159)**
Loss for the period			**(13,904)**
Other segment items:			
Capital expenditure	**5,950**	**659**	**6,609**
Depreciation and amortisation (excluding depreciation of right-of-use assets)	**13,509**	**4,993**	**18,502**
Depreciation of right-of-use assets	**49,952**	**298**	**50,250**
Loss on disposal of property, plant and equipment	**17**	**–**	**17**

3 SEGMENT INFORMATION (CONTINUED)

	(Unaudited) Six months ended 30 June 2022		
	Hong Kong Retail	Wholesale	Total
	HK$'000	*HK$'000*	*HK$'000* (Restated)
Segment revenue	269,811	79,810	349,621
Less: Inter-segment revenue	(6,880)	(2,743)	(9,623)
Revenue from external customers	262,931	77,067	339,998
Segment results	21,342	7,911	29,253
Corporate expenses *(Note (a))*			(23,231)
Finance costs, net			(2,073)
Profit before income tax			3,949
Income tax expense			(1,021)
Profit for the period			2,928
Other segment items:			
Capital expenditure	10,948	4,969	15,917
Depreciation and amortisation (excluding depreciation of right-of-use assets)	12,764	5,604	18,368
Depreciation of right-of-use assets	47,490	317	47,807
Loss on disposal of property, plant and equipment	31	–	31

3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2023 and 31 December 2022 are as follows:

	Hong Kong Retail *HK$'000*	Wholesale *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
As at 30 June 2023 (Unaudited)				
Segment assets	**475,666**	**236,592**	**(562)**	**711,696**
Prepaid tax				**708**
Deferred income tax assets				**7,784**
Corporate assets *(Note (b))*				**19,658**
Total assets				**739,846**
As at 31 December 2022 (Restated)				
Segment assets	490,114	246,691	(513)	736,292
Prepaid tax				8,168
Deferred income tax assets				7,645
Corporate assets *(Note (b))*				7,683
Total assets				759,788

Notes:

(a) Corporate expenses mainly included employee benefit expenses, depreciation of right-of-use assets and property, plant and equipment of headquarter office and auditors' remuneration for the six months ended 30 June 2023 and 2022.

(b) Corporate assets mainly included cash and cash equivalents, prepayment, deposits and other receivables, and right-of-use assets and property, plant and equipment of headquarter office as at 30 June 2023 and 31 December 2022.

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 six months ended 30 June 2023 and 2022, no revenue was generated from the Cayman Islands. As at 30 June 2023 and 31 December 2022, no assets were located in the Cayman Islands.

4 REVENUE, OTHER INCOME AND OTHER GAINS, NET

The Group's revenue, other income and other gains, net recognised during the six months ended 30 June 2023 and 2022 are as follows:

	(Unaudited) Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
Revenue recognised at a point in time		
Sale of goods	**331,678**	339,998
Other income		
Government grants *(Note (a))*	**–**	1,880
Service income	**2,080**	305
Others	**703**	565
	2,783	2,750
Other gains, net		
Exchange differences	**124**	152
Losses on disposal of property, plant and equipment	**(17)**	(31)
	107	121
Other income and other gains, net	**2,890**	2,871

Note:

(a) During the six months ended 30 June 2022, government subsidies of HK$1,880,000 were granted from the Catering Business Subsidy Scheme under Anti-Epidemic Fund launched by the Government of the Hong Kong Special Administrative Region.

5 EXPENSES BY NATURE

	(Unaudited) Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**106,925**	107,804
Lease rental in respect of retail outlets *(Note (a))*		
– Contingent rental	**337**	213
Lease rental in respect of storage spaces and office premises *(Note (a))*	**6,255**	5,947
Advertising and promotional expenditure	**5,819**	5,632
Depreciation of property, plant and equipment *(Note 9)*	**18,745**	18,723
Depreciation of right-of-use assets	**51,294**	48,778
Amortisation of intangible assets	**327**	260
Communication and utilities	**15,527**	15,405
Employee benefit expenses (including directors' emoluments) *(Note (b))*	**104,836**	99,191
Provision for impairment loss on right-of-use assets	**2,191**	–
Legal and professional fees	**2,153**	2,109
Auditor's remuneration		
–Audit services	**1,400**	1,855
Tools, repair and maintenance expenses	**5,712**	4,911
Transportation and distribution expenses	**15,239**	15,982
Others	**9,349**	10,037
Total cost of sales, selling and distribution costs and administrative and operating expenses	**346,109**	336,847

Notes:

(a) These expenses included short-term leases expenses of HK$435,000 (2022: HK$548,000), variable lease payment expenses of HK$124,000 (2022: HK$417,000) and other rental-related expenses of HK$6,033,000 (2022: HK$5,195,000) for the six months ended 30 June 2023.

(b) During the six months ended 30 June 2022, government subsidies of HK$10,404,000 were granted from the Employment Support Scheme under Anti-Epidemic Fund which had been offset against with the employee benefit expenses.

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 (2022: Same).

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

	(Unaudited) Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
		(Restated)
Current income tax		
– Current income tax	**257**	132
– Under-provision in prior years	**39**	286
Deferred income tax	**(137)**	603
Income tax expense	**159**	1,021

7 (LOSS)/EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June	
	2023	2022 (Restated)
(Loss)/profit attributable to owners of the Company (HK$'000)	**(9,649)**	8,074
Weighted average number of ordinary shares for the calculation of basic (loss)/earnings per share (thousands)	**655,944**	655,944
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company		
– Basic (loss)/earnings per share (HK cents)	**(1.47)**	1.23
– Diluted (loss)/earnings per share (HK cents)	**(1.47)**	1.23

(a) Basic

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

(b) Diluted

Diluted (loss)/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 (loss)/earnings per share for the six months ended 30 June 2023 and 2022 equal basic (loss)/earnings per share as there were no potentially dilutive ordinary shares as at both period ends.

8 DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023 (2022: Nil).

9 PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
At 1 January	**285,637**	306,324
Additions	**6,603**	15,917
Disposals	**(41)**	(31)
Depreciation	**(18,745)**	(18,723)
Exchange difference	**(2,747)**	(5,218)
At 30 June	**270,707**	298,269

Depreciation of HK$5,389,000 (2022: HK$5,849,000) has been charged in 'cost of sales' and HK$13,356,000 (2022: HK$12,874,000) in 'administrative and operating expenses' for the six months ended 30 June 2023.

10 TRADE RECEIVABLES

	As at 30 June 2023 *HK$'000* **(Unaudited)**	As at 31 December 2022 *HK$'000* (Audited)
Trade receivables from third parties	**64,269**	58,896
Trade receivables from a related party	**–**	428
	64,269	59,324
Less: Provision for impairment on trade receivables	**(516)**	(898)
Trade receivables, net	**63,753**	58,426

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (31 December 2022: Same). As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 30 June 2023 *HK$'000* **(Unaudited)**	As at 31 December 2022 *HK$'000* (Audited)
Less than 30 days	**22,342**	19,413
31 to 90 days	**35,450**	30,517
Over 90 days	**5,961**	8,496
	63,753	58,426

11 TRADE PAYABLES

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade payables based on invoice date is as follows:

	As at 30 June 2023 *HK$'000* **(Unaudited)**	As at 31 December 2022 *HK$'000* (Audited)
0 to 30 days	**20,782**	17,886
31 to 60 days	**14,257**	15,940
61 to 90 days	**3,475**	4,519
Over 90 days	**30**	2,756
	38,544	41,101

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Over the past six months ended 30 June 2023 ("**1H2023**" or the "**Review Period**"), Coronavirus Disease 2019 ("**COVID-19**") pandemic restrictions have at last been lifted. Despite of this, the anticipated economic recovery has been slow in Hong Kong, as the city like many other parts of the world was affected by other global challenges including a high interest rate environment, sluggish equity and property markets, rising inflation and heightened geopolitical tensions. Such factors have had a direct and negative effect on consumer sentiment, which invariably impacted the Group during the Review Period. During 1H2023, the Group's total revenue amounted to HK$331.7 million, down 2.4% from HK$340.0 million recorded for the six months ended 30 June 2022 ("**1H2022**").

Gross profit slid 4.1% to HK$193.9 million (1H2022: HK$202.2 million), while gross profit margin declined modestly to 58.5% (1H2022: 59.5%), mainly due to the decline in revenue, rise in raw material costs, wages and utility expenses. Furthermore, operating expenses rose, primarily due to higher staff costs, higher utility expenses and higher rental costs. In addition, government grants and subsidies received by the Group as part of pandemic relief measures in 1H2022, comprising funds from the Employment Support Scheme and the Catering Business Subsidy Scheme, were no longer offered during the Review Period. Consequently, the Group incurred a loss attributable to owners of the Company of HK$9.6 million in 1H2023 (1H2022: profit of HK$8.1 million).

Despite the challenging market, the Group remains in a healthy financial position with stable operating cash flows. It has sufficient cash and cash equivalents and unutilised banking facilities amounting to approximately HK$90.9 million and HK$53.7 million, respectively, as at 30 June 2023 (31 December 2022: HK$103.9 million and HK$64.2 million, respectively).

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

The Hong Kong retail business remained the largest revenue contributor for the Group in 1H2023, generating HK$251.7 million (1H2022: HK$262.9 million) in revenue – down 4.3% year-on-year, and accounting for 75.9% of total revenue. This came as the pace of recovery in the Hong Kong economy, particularly in the food and beverage sector, was slower than expected. Store traffic and same-store sales had yet to revive despite the removal of COVID-19-related restrictions. In particular, local consumption was lacklustre as more Hong Kong people began traveling overseas once again, while the rebound in inbound visitors was slow. Segment profit also fell – down 82.1% to HK$3.8 million (1H2022: HK$21.3 million), mainly due to a combination of factors, including an increase in raw material, labour and rental costs; a rise in utility expenses; and the absence of government grants received or receivable as part of pandemic relief measures.

The Group has adopted a more prudent shop opening strategy in view of the relatively fragile local economy, converting one Hung Fook Tong shop into an "HFT Life" café during 1H2023. With a total of 119 self-operated shops in the city, including 11 HFT Life cafés that target the wellness-conscious and younger generations, the Group has maintained its position as the largest herbal retailer in Hong Kong in terms of retail network size. In addition, the management has given high priority to controlling costs by way of streamlining the Group's supply chain and keeping a tight rein on promotional discounts.

At the same time, the management recognises the importance of tapping more revenue streams through the careful launch of new products. The Group saw a notable rise in ginger trotter category sales following the launch of the premium ginger trotter (至尊豬腳小黃薑醋) in December 2022. To further capitalise on the dietary needs of pregnant women and new mothers, the Group has launched diet packages as well as new roasted rice tea and soup products suitable for pregnant women and those requiring postpartum confinement. As for accessing more sales channels, the Group has actively participated in various physical and online exhibitions, even though footfall has yet to recover. The Group has also introduced new catering services for seizing opportunities relating to weddings, banquets and other large-scale events.

On the marketing front, the Group has sought to capitalise on the Hong Kong Government's 2023 Consumption Voucher Scheme. In line with the first disbursement in mid-April, the Group launched various package offers that achieved satisfactory, though temporary, boost in sales. Separately, the Group has continued to build loyalty to and increase membership of JIKA CLUB (自家CLUB) through a wide range of exclusive discounts and privileges. Consequently, total membership exceeded 1,320,000 as at 30 June 2023, or an increase of approximately 62,000 members during 1H2023. The Hung Fook Tong mobile application ("**APP**") has also achieved progress during the Review Period, with downloads increasing by 40% year-on-year, and over 34% of total member transactions were completed via the APP.

With regard to the Group's expansion into the e-commerce arena, the development of its "JIKA ON!" (自家ON!) online marketplace was in full swing. To boost registrations from existing JIKA CLUB members and other consumers, special offers and promotions were introduced. JIKA ON! also launched a member bonus points programme to strengthen customer loyalty and actively expanded its offerings to include more organic, low-calorie healthy food and vegetarian options.

Wholesale

The wholesale segment achieved a 3.8% year-on-year increase in revenue to HK$80.0 million (1H2022: HK$77.1 million), as both the Hong Kong and Mainland China wholesale markets gradually recovered, albeit at a slower-than-expected pace. Moreover, with the depreciation of the Renminbi, production costs fell at the Group's plant in Kaiping City, Guangdong, which in turn contributed to an increase in segment profit of 19.4% to HK$9.4 million (1H2022: HK$7.9 million).

The Group's **Hong Kong** wholesale segment achieved 3.7% growth in revenue to HK$66.6 million (1H2022: HK$64.2 million), largely due to greater sales from several key accounts on the back of new beverage product launches, as well as the expansion of sales channels. During the Review Period, the Group has further bolstered the wholesale product portfolio. This has included the introduction of new drink flavours and new packaging for existing products that adopt a Chinese palace theme. The Group has also continued its partnership with PARKnSHOP, which involved the launch of more nutritional herbal drinks and herbal teas in a squeezable aluminium packaging. In addition, the Group has tapped more sales channels, extending the segment's reach to additional e-retailers, O2O shops and restaurants.

In **Mainland China**, the domestic economy was still in a recovery mode in 1H2023, leading to a more subdued performance by the Group's wholesale operation. Still, with consumer sentiment gradually reviving, revenue rose 4.4% to HK$13.4 million (1H2022: HK$12.9 million), mainly from sales in Southern China, including Guangzhou and Shenzhen. The increase can be attributed to the Group's close partnerships with key accounts and a major distributor, leading to greater availability of its products. As at 30 June 2023, long shelf-life and fresh beverage products were available at over 11,000 convenience stores in cities such as Guangzhou, Dongguan, Shenzhen and Shanghai, as well as various supermarkets and department stores. The Group has also been able to access more wholesale channels, including local supermarkets, restaurants and e-commerce platforms.

Among the popular online platforms that the Group has dedicated greater resources for promoting sales include JD.com (京東), Taobao (淘寶), Tmall(天貓), Meituan(美團), Douyin (抖音) and Xiao Hong Shu (小紅書) online stores.

Other Markets

During the Review Period, the Group's performance in other markets has been reasonably satisfactory given the volatility of many global economies which are still recovering from the lingering effects of COVID-19. Sales in overseas markets such as the United States, Canada, Australia, the United Kingdom, Malaysia and Singapore, have been consistent and stable. The Group remains keen to expand its geographical footprint, and negotiation are already underway to tap new markets.

PROSPECTS

Despite a gradually improving retail market, the general consensus among the industry is that there remains a long way to go before a full economic recovery can be achieved. Both local and international challenges such as interest rate hikes, rising inflation and escalating operating costs are also sources of concern for all retailers.

Faced with these challenges, the Group will exercise extreme financial prudence, streamlining its supply chain and seeking to reduce production costs by consolidating the production capacity at its Hong Kong and Mainland China factories. The Group is confident about maintaining healthy operating cash flows.

Still, healthy food and drink are intrinsic desires that the Group has been committed to satisfying since its inception. Therefore, it will actively seize opportunities that emerge from the rising demand for healthy food products by bolstering its market presence. Correspondingly, the Group will engage in product development, cross-brand collaboration, sales channel development and geographical expansion.

Hong Kong Retail

In view of the slow retail recovery, the Group will be focusing on maintaining a stable and effective retail network, hence it targets opening between two and three stores in the second half of 2023. Presently, one new shop is set to open at an MTR station in the fourth quarter of this year. To control rental costs, the Group will maintain close communication with landlords to seek more favourable terms, having already secured certain reductions during the Review Period.

Given the "New Retail" era, the ability to innovate will be paramount, and this includes product innovation. The Group will therefore promote more co-branded products, including those appropriate for pregnant women and those requiring postpartum care. More ambient temperature products are also in the pipeline that will be easy to consume and give as gifts, such as mango deluxe drinks. With regard to HFT Life cafés, the Group will continue to leverage this business as it has followed a steady upward growth trajectory, hence more baked goods, dessert items and special coffees (such as herbal espresso) will be made available.

Increasing membership of JIKA CLUB will remain a key objective of the Group as well. To recruit and retain members, the Group will introduce exclusive offers, initiate joint promotions and leverage referral programmes. As for accelerating digitisation, the Group will further promote the use of its APP via customised member promotions.

Wholesale

With respect to the wholesale operation in **Hong Kong**, the Group will further promote cross-brand partnerships on both the product development and marketing fronts. This will include bringing more healthy drinks to the shelves to cater for the health-conscious trend. In addition, the Group will be launching new products and new packaging, spanning canned herbal teas as well as food products.

In **Mainland China**, the Group anticipates consumers to adopt a cautious approach amid a lukewarm economy, which, combined with fierce market competition, will result in a business environment that mimics the first half year. To shield the Group from such conditions, the management will seek to strengthen ties with key accounts and distributors as the Group introduces more herbal teas and healthy beverages to convenience stores and supermarkets. Moreover, it will employ online platforms to place more products for sale, and leverage social platforms to promote its products.

Concerning **other markets**, the Group will seek to strengthen its footholds in the United States, Canada and the United Kingdom. It will also direct greater effort to tapping overseas markets to create new revenue streams. Already, the management is in discussions with distributors in South Korea and Japan to achieve this objective.

CONCLUSION

The Group recognises that the road to recovery will be paved with operational and economic uncertainties. Nonetheless, it will maintain its efforts at delivering products of the highest quality and strive for overall operational excellence. With its numerous competitive edges, including mature sales channels, depth of industry experience amassed over three decades, and professional management, the Group is confident in its ability to weather the ups and downs of business cycles and achieve long-term sustainable development that benefits all stakeholders.

FINANCIAL REVIEW

Revenue

In 1H2023, the Group's revenue amounted to HK$331.7 million, representing a decrease of 2.4% from HK$340.0 million in 1H2022. Revenue from Hong Kong retail operations declined to HK$251.7 million, representing a decrease of 4.3% from HK$262.9 million in 1H2022. It was negatively impacted by the overall economic conditions and the slower than expected pace of economic recovery in Hong Kong which have affected consumer spending. However, revenue from wholesale business has increased to HK$80.0 million, representing an increase of 3.8% from HK$77.1 million in 1H2022 due to greater sales from several key accounts on the back of new products launches.

Cost of Sales

The Group's cost of sales amounted to HK$137.8 million in both 1H2023 and 1H2022. As a percentage of revenue, cost of sales was 41.5% and 40.5% in 1H2023 and 1H2022 respectively. The increase was mainly due to rising costs of materials, wages and utility expenses.

Gross Profit and Gross Profit Margin

In 1H2023, the Group's gross profit amounted to HK$193.9 million, representing a decrease of 4.1% from HK$202.2 million in 1H2022. The Group's gross profit margin decreased by 1.0 percentage point to 58.5% as compared to 59.5% in 1H2022, mainly attributable to higher raw materials costs, wages and utility expenses.

Staff Costs

In 1H2023, the Group's staff costs amounted to HK$104.8 million, representing an increase of 5.7% from HK$99.2 million in 1H2022. The increase was mainly due to the absence of non-recurrent government grant from the Employment Support Scheme which were received in 1H2022. The staff costs-to-revenue ratio was 31.6% in 1H2023 as compared to 29.2% in 1H2022.

Rental Expenses

In 1H2023, 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$51.7 million, representing an increase of 4.1% from HK$49.6 million in 1H2022 due to less rental concessions granted by certain landlords. Rental expenses-to-revenue ratio for the Hong Kong retail shops was 20.5% as compared to 18.9% in 1H2022.

Advertising and Promotion Expenses

In 1H2023, the Group's advertising and promotion expenses amounted to HK$5.8 million, representing an increase of 3.3% from HK$5.6 million in 1H2022. This accounted for 1.8% and 1.7% respectively in percentage to revenue in 1H2023 and 1H2022.

Depreciation

The depreciation of property, plant and equipment of the Group amounted to HK$18.7 million in both 1H2023 and 1H2022. The depreciation-to-revenue ratio was 5.7% as compared to 5.5% in 1H2022.

(Loss)/Profit Attributable to Owners of the Company

Loss attributable to owners of the Company for the six months ended 30 June 2023 was HK$9.6 million, a decline from a profit of HK$8.1 million in 1H2022.

Loss per share for loss attributable to owners of the Company for the six months ended 30 June 2023 amounted to HK1.47 cents, as compared to earnings per share for profit attributable to owners of the Company of HK1.23 cents in 1H2022.

Capital Expenditure

Capital expenditure incurred during 1H2023 amounted to HK$6.6 million (1H2022: HK$15.9 million), primarily for revamping of existing retail shops, acquiring production facilities in Tai Po plants and acquiring equipment in retail shops.

Liquidity and Financial Resources Review

As at 30 June 2023, the Group had bank deposits and cash balance amounted to HK$90.9 million (31 December 2022: HK$103.9 million).

As at 30 June 2023, the gearing ratio of the Group was 0.64 (31 December 2022: 0.53), 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 0.14 (31 December 2022: 0.11).

As at 30 June 2023, the Group had total banking facilities of HK$97.9 million (31 December 2022: HK$103.2 million) of which HK$44.2 million (31 December 2022: HK$39.0 million) had been utilised.

As at 30 June 2023, the Group's current liabilities exceeded its current assets by HK$123.2 million (31 December 2022: HK$107.1 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons and credits to customers in Hong Kong of HK$150.2 million (31 December 2022: HK$164.6 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$27.0 million (31 December 2022: HK$57.5 million) and current ratio of 1.12 (31 December 2022: 1.28).

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 Renminbi ("**RMB**"). We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB. The Group will continue to take proactive measures and monitor closely of its exposure to such currency movement.

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments during the six months ended 30 June 2023.

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 2023, the Group employed approximately 896 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 2023, 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 2023 (for the six months ended 30 June 2022: Nil).

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 2023.

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 2023, 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 2023.

PricewaterhouseCoopers, the external auditors of the Company, have reviewed the unaudited interim financial information for the six months ended 30 June 2023 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 2023, 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 2023 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, 30 August 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.