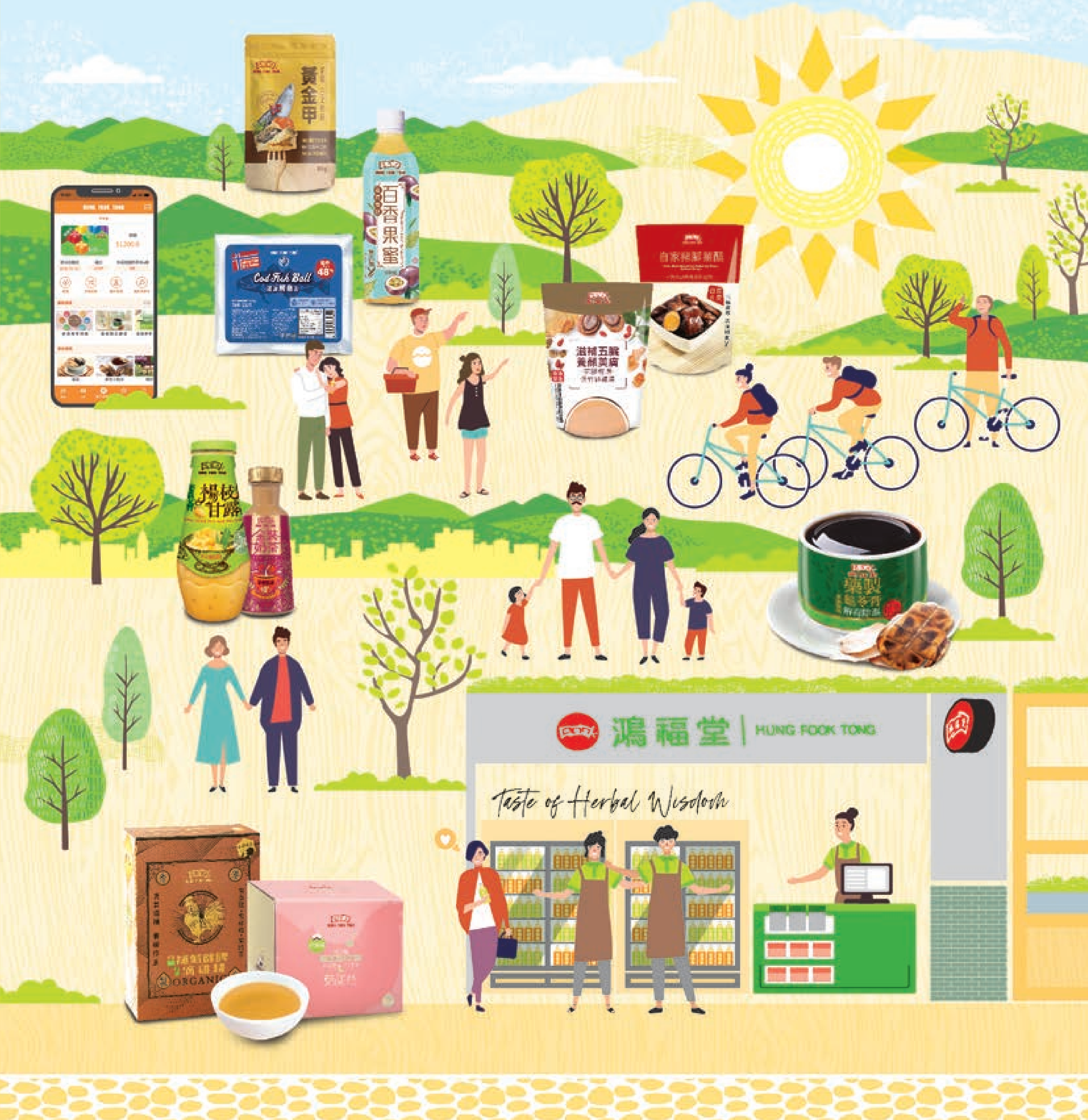
HUNG FOOK TONG

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)
（於開曼群島註冊成立的有限公司）

Stock Code 股份代號：1446

2019 INTERIM REPORT 中期報告



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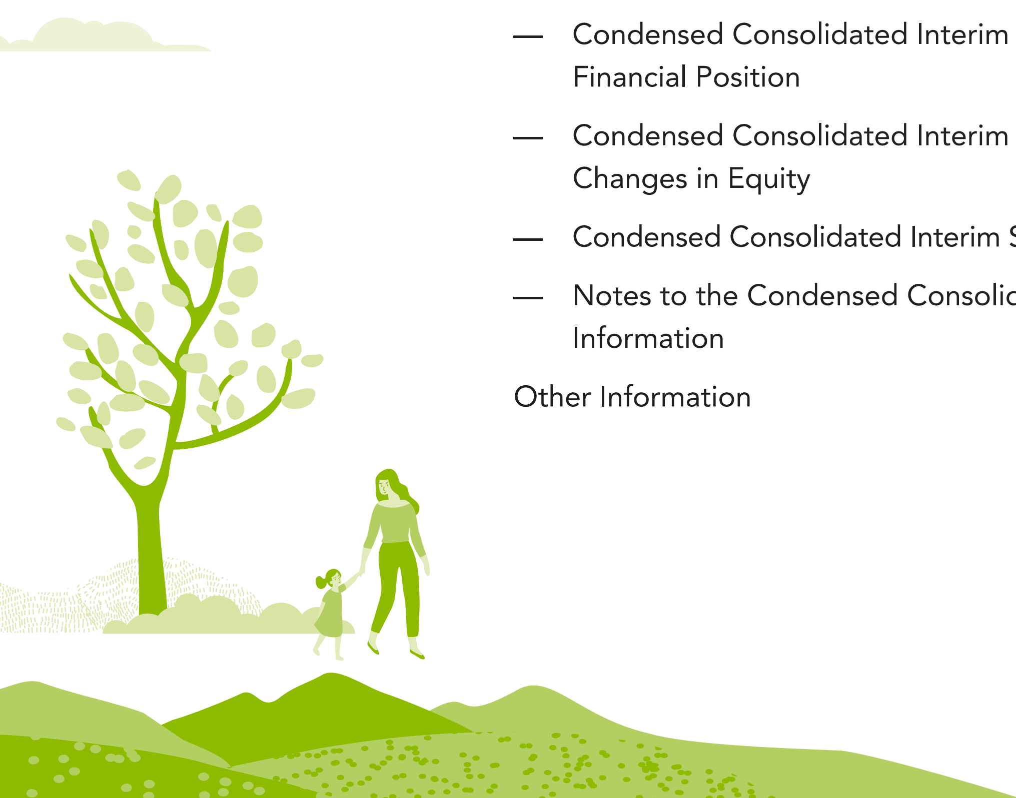

CORPORATE INFORMATION

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

Executive Directors

Mr. TSE Po Tat *(Chairman)*
Dr. SZETO Wing Fu
Ms. WONG Pui Chu

Independent Non-executive Directors

Mr. KIU Wai Ming
Professor SIN Yat Ming
Mr. Andrew LOOK

AUDIT COMMITTEE

Mr. Andrew LOOK *(Chairman)*
Mr. KIU Wai Ming
Professor SIN Yat Ming

REMUNERATION COMMITTEE

Professor SIN Yat Ming *(Chairman)*
Mr. KIU Wai Ming
Ms. WONG Pui Chu

NOMINATION COMMITTEE

Mr. KIU Wai Ming *(Chairman)*
Dr. SZETO Wing Fu
Mr. Andrew LOOK
Professor SIN Yat Ming

STRATEGY AND DEVELOPMENT COMMITTEE

Dr. SZETO Wing Fu *(Chairman)*
Ms. WONG Pui Chu

AUTHORIZED REPRESENTATIVES

Dr. SZETO Wing Fu
Mr. LAU Siu Ki

COMPANY SECRETARY

Mr. LAU Siu Ki

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11 Dai King Street
Tai Po Industrial Estate
Tai Po, New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
24th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
99 Queen's Road Central
Hong Kong

COMPANY WEBSITE

www.hungfooktong.com

STOCK CODE

1446

BUSINESS REVIEW

During the six months ended 30 June 2019 ("1H2019"), consumer sentiment in Hong Kong and Mainland China has become more cautious owing to ongoing China-US trade tensions, compounded by uncertainties in the macro environment. Despite the lacklustre environment, the Group was still able to record revenue growth from the Hong Kong retail business – up 5.0%, owing to strong brand recognition from local consumers. Such increase has offset the decline in wholesale business on both sides of the border. As a consequence, total revenue for continuing operations increased modestly by 0.9% year-on-year to HK$390.9 million (for the six months ended 30 June 2018 ("1H2018"): HK$387.3 million). Gross profit for continuing operations, nonetheless, edged up by 3.4% to HK$242.7 million (1H2018: HK$234.7 million), due to the robust performance of the Hong Kong retail operation, complemented by its effective management of production costs. As a result, gross profit margin for continuing operations rose to 62.1% (1H2018: 60.6%).

During the reporting period, associated one-off expenses of HK$2.5 million were incurred mainly due to the closure of the Suzhou plant. Nonetheless, owing to an increase in gross profit and termination of retail operations in Mainland China – which was in a loss-making position, profit attributable to owners of the Company increased by 19.0% to HK$5.1 million (1H2018: HK$4.2 million). Excluding the aforementioned one-off expenses, profit attributable to owners of the Company would have been HK$7.6 million.

The Group is pleased that the new facilities in Kaiping City, Guangdong Province, commenced full production in the second quarter of 2019, thereby expanding the Group's production capacity. With its higher level of automation, the management trusts that the Kaiping plant will lead to lower production costs in the coming years.

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

The Hong Kong retail business has continued to serve as primary revenue contributor of the Group, generating HK$296.5 million (1H2018: HK$282.3 million) during the review period, up 5.0% year-on-year, and accounting for 75.8% of total revenue. The increase can be attributed to various factors, including favourable demand for the Group's Joyous Series products, such as Organic Chicken Essence (有機滴雞精) and Stewed Pork Trotter and Ginger in Sweet Vinegar (自家豬腳薑醋) which achieved double-digit sales growth, as well as an expanded product range that now includes several postnatal soups and food items (坐月湯水及食療). In addition, a price adjustment to certain products that commenced in June also contributed to stable same store sales growth. There was also a notable increase in coupon sales owing to online retailers and ties with corporate partners, along with a rise in contributions from HUNG+ (鴻家) Smart Vendors, as nine more machines commenced operation when compared with 30 June 2018.

Segment profit rose appreciably to HK$43.3 million, up 17.6% from HK$36.8 million in 1H2018, which was attributable to higher revenue and gross profit margin resulting from the effective control of operating costs.

BUSINESS SEGMENT ANALYSIS (Continued)

Hong Kong Retail (Continued)

Consistent with the Group's commitment to delivering omnichannel experiences to its customers, it has continued to enhance different facets of operation. With regard to brick-and-mortar stores, the Group has opened four new shops during the review period, which are found in shopping centres located in Sha Tin, Sheung Shui and Sham Tseng. The openings have, in turn, enabled the Group to maintain its standing as the largest herbal retailer in Hong Kong based on retail network size, now totalling 112 self-operated shops as at 30 June 2019. Besides network expansion, the Group has applied a new interior design to its shop at Fortune City One, thus creating an even more appealing shopping environment.

Yet a further means of reaching out to customers is "Home+", which are innovative smart shops. As at 30 June 2019, the Group has collaborated with other commercial brands and operated five such shops – all equipped with smart technologies that allow customers to enjoy the ultimate in self-service convenience. Still another method of employing technology to better serve customers is the HUNG+ Smart Vendor, which can be found in commercial buildings and residential estates. During the period, a total of 15 HUNG+ machines were in operation.

The Group has also reached out to customers via the internet by way of the Hung Fook Tong Online ("HFT Online") platform. Indicative of the excellence of HFT Online, it has earned the "Quality E-Shop" designation from the Hong Kong Retail Management Association ("HKRMA") in 2019 – the third consecutive year. To further encourage customer interaction is the Group's digital membership card, which recorded a rise in subscription – owing to a dedicated mobile application. The JIKA CLUB (自家CLUB) has likewise experienced an uptake, having extended its reach to over 870,000 members as at 30 June 2019, or an increase of around 50,000 members during the period. Average spending per member has risen as well, driven by marketing promotions and incentive programmes.

Wholesale

Revenue from the wholesale business contracted by 10.1% year-on-year to HK$94.4 million (1H2018: HK$105.0 million), owing to sales declines in both the Hong Kong and Mainland China markets. Segment loss amounted to HK$4.5 million (1H2018: loss of HK$2.1 million), which can be attributed to a decline in segment results from the Hong Kong wholesale operation resulting from lower revenue against higher selling expenses. A loss was recorded from the Mainland China wholesale business, yet increasingly stable cost control has been observed as the Kaiping plant commenced full production during the review period.

The Hong Kong wholesale operation contributed revenue of HK$56.0 million (1H2018: HK$62.4 million), down 10.2% year-on-year. The decline was principally due to lower revenue from a couple of key accounts, the orders of which have returned to normal levels since July 2019. Separately, the Group has expanded its sales channels by tapping more food and beverage operators, the majority of which are buffet-style and hotpot restaurants. The Group has also bolstered its product offerings with the introduction of two new drink flavours, namely, Passion Fruit with Honey Drink (百香果蜜) and Begonia Fimbristipula Hance Drink (紫背天葵). These products were complemented by marketing efforts directed towards younger audiences.

BUSINESS SEGMENT ANALYSIS (Continued)

Wholesale (Continued)

In Mainland China, the wholesale business experienced a decline in revenue of 10.0% year-on-year to HK$38.4 million (1H2018: HK$42.7 million), mainly due to the depreciation of the Renminbi, as well as less revenue from key customers from the Beijing and Shanghai markets. The Group nonetheless possesses an extensive distribution network which, as at 30 June 2019, consists of 76 distributors covering 20 provinces and 47 cities, among which Guangzhou continues to be the largest revenue contributor.

To stimulate consumption, the Group launched several new products that emphasised "Hong Kong Taste" during the review period, including Hong Kong-style Milk Tea (港式奶茶) and Sour Plum Drink (酸梅湯). At the same time, it actively expanded key account channels, including a key account in Chengdu. Furthermore, the Group partnered with online retailers, which strengthened its reach across Mainland China. Also, in seeking to enhance ties with both its customers and corporate partners, the Group introduced various consumer tastings and B2B promotions.

The Group's operation in Taiwan has continued to perform in a stable manner, as its Salted Lime Drink (咸青檸) and Iced Lemon Tea Drink (凍檸茶) became available at FamilyMart convenience stores.

Discontinued Operation

The Group elected to cease all retail operations in Mainland China in December 2018. Thus during 1H2019, no revenue or profit/loss has been recorded from this segment (1H2018: revenue of HK$4.5 million and segment loss of HK$2.1 million). With the conclusion of retail operations in Mainland China, the Group has been able to better allocate and focus its human, financial and operational resources on its retail business in Hong Kong, as well as advance its overall wholesale business.

Production Capability

The Tai Po production plant in Hong Kong has maintained a high level of food safety management, as reflected by its ability to renew ISO22000, Hazard Analysis Critical Control Point ("HACCP") and Good Manufacturing Practices ("GMP") accreditation from Accredited Certification International Limited ("ACI") in February 2019.

As for its counterpart in Kaiping City, Guangdong, it has become fully operational in the second quarter of 2019. Equipped with four highly automated production lines for fresh and long-shelf life drinks, the Kaiping facility will be able to support demand from the Mainland China market. Consistent with the Group's commitment to quality, the facility abides by stringent quality controls, and obtained ISO22000 and HACCP accreditation in May 2019.

PROSPECTS

According to the HKRMA, prudent consumer sentiment in Hong Kong and Mainland China is expected to persist under the prolonged China-US trade dispute, and uncertainties in both the external and domestic environment. Furthermore, HKRMA has forecasted a double-digit decline in retail sales value for the full 2019 year, due to ongoing social unrest. Already, the impact from the social events on the Group's Hong Kong retail business has been seen since July.

In view of such developments, the Group will remain flexible towards business development and vigilant to market changes. It nonetheless remains confident that, given the quality of its products and innovative solutions, the Group will continue to strengthen its leadership in the Hong Kong retail market, while at the same time bolster its wholesale operation in Mainland China.

Hong Kong Retail

As regards the Hong Kong retail market, the Group targets to open approximately six new outlets in the second half year, the majority of which will be located in MTR stations, including Admiralty, North Point, Kowloon Bay and along the West Rail Line. Subsequent to the review period, three shops have been opened. As has been the recent practice, the Group will continue to introduce a new interior design to its new outlets in order to enhance customers' shopping experiences.

The Group will also make further investments in advanced technologies to achieve progress at both the channel and product level. In respect of the former, the Group will introduce an JIKA CLUB mobile application enhancement in the third quarter that features a new design and interface to enrich the user experience, as well as for the Group to more effectively launch its latest promotions. In addition, it plans to integrate the existing HFT Online shop to a new "Home+" online platform that will offer more personalised food, health and wellness products, as well as smart home devices to customers, thus enabling the Group to reach an even larger customer segment.

As for the Group's brick-and-mortar stores, more self-checkout kiosks will be made available, so that customers can enjoy greater convenience. Also with convenience in mind, the number of HUNG+ Smart Vendor machines will increase by three in the second half year. Such machines also represent an effective means for the Group to address rising rent and labour costs. As more Smart Vendors become operational, the Group will be able to benefit from greater economies of scale.

On the product front, the Group will continue to expand the Joyous Series by launching a number of new products by the end of 2019, including a new flavour of Organic Chicken Essence (補氣健脾有機滴雞精) which has been introduced in August, beauty drinks and a greater variety of postnatal soup and meal choices. The Group will also tap the wedding and gift giving market by partnering with HiWalk (海邊走走), which is a popular Taiwan hand-made egg roll brand, to raise awareness of Hung Fook Tong wedding gift cards. The linkup with HiWalk, which commenced in 2018, also resulted in the launch of an exclusive to Hong Kong "Hung Fook Tong X HiWalk Sakura Shrimp Egg Rolls" in July 2019, serving as another ideal wedding gift option.

PROSPECTS (Continued)

Wholesale

With respect to the wholesale operation, the Group will seek to expedite ramp-up of the new Kaiping facilities to support demand for its long shelf-life and fresh drinks from the Mainland China market, which in turn will lower production costs in the coming years.

As for the Hong Kong market, the Group will launch new ambient drinks such as Lemon and Job's Tears Seed Drink (檸檬薏米) and Aloe Vera Drink (粒粒蘆薈飲), as well as some fresh products to drive sales. Besides these new offerings, the Group has introduced "LINE FRIENDS meets Hung Fook Tong" limited edition drinks and gifts in July and August. In addition, the Group will expand into the non-beverage wholesale market by leveraging its well established third-party retail network. Among the frozen seafood and snacks launched or set for launch at supermarkets or convenience stores in the second half year include Frozen Cod Fish Ball (深海鱈魚丸), Cod Fish Tofu (深海鱈魚豆腐) and Salmon Fish Skin (挪威三文魚皮) under the Hung Fook Tong brand.

In Mainland China, mindful of consumers' penchant for new beverage choices, as well as the increasing popularity of healthy low-calorie soft drinks, the Group has introduced a number of low-calorie or low-sugar products that heed such preferences. Furthermore, to reinforce its competitive advantage in Southern China, specifically in areas where it has established footholds, the Group will seek to tap more sales channels such as those for schools and restaurants. It will also seek to penetrate second-tier cities in eastern Guangdong. As for going beyond these geographical borders, the Group will partner with online retailers, comprising both B2C and B2B platforms, which will be supported by more impactful online promotions.

To further penetrate the Taiwan wholesale market, the Group will launch a number of fresh drinks via FamilyMart convenience stores, while an array of products will also be sold via local online platforms in the second half year. As for the Vietnam market, the Group will be introducing several flavours of drinks to convenience stores in the country, which will include American Ginseng with Honey Drink (花旗蔘蜜) and Imperatae Cane Drink (竹蔗茅根).

CONCLUSION

Given the Group's leadership in the wellness food and beverage industry, ample business experience and in-depth understanding of consumers' needs, it possesses the strengths as well as the growth momentum necessary for facing the fast-changing future confidently.

FINANCIAL REVIEW

Revenue

In 1H2019, the Group's revenue for the continuing operations amounted to HK$390.9 million, representing an increase of 0.9% from HK$387.3 million in 1H2018.

Revenue from Hong Kong retail operation has increased to HK$296.5 million, representing an increase of 5.0% from HK$282.3 million in 1H2018 as a result of stable same-store sales growth partly resulting from the sales of products from the Joyous Series, as well as increase in coupon sales via different online resellers and corporate partners. However, revenue from wholesale business has decreased to HK$94.4 million, representing a decrease of 10.1% from HK$105.0 million in 1H2018 due to keen competition in both the Hong Kong and Mainland China markets.

Cost of Sales

In 1H2019, the Group's cost of sales for the continuing operations amounted to HK$148.2 million, representing a decrease of 2.9% from HK$152.7 million in 1H2018. As a percentage of revenue, cost of sales represented 37.9% and 39.4% in 1H2019 and 1H2018 respectively.

Gross Profit and Gross Profit Margin

In 1H2019, the Group's gross profit for the continuing operations amounted to HK$242.7 million, representing an increase of 3.4% from HK$234.7 million in 1H2018. The Group's gross profit margin increased by 1.5 percentage point to 62.1% as compared to 60.6% in 1H2018 due to effective implementation of cost control measures in the Hong Kong retail operation.

Staff Costs

In 1H2019, the Group's staff costs for the continuing operations amounted to HK$123.9 million, representing an increase of 2.7% from HK$120.7 million in 1H2018. The staff costs-to-revenue ratio for the continuing operations was 31.7% as compared to 31.2% in 1H2018.

Rental Expenses

In 1H2019, expenses in relation to the rental of 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$52.6 million, representing a decrease of 1.1% from HK$53.2 million in 1H2018. Rental expenses-to-revenue ratio for the Hong Kong retail shops was 17.8% as compared to 18.9% in 1H2018.

Advertising and Promotion Expenses

In 1H2019, the Group's advertising and promotion expenses for the continuing operations amounted to HK$15.6 million, representing an increase of 10.2% from HK$14.2 million in 1H2018. This accounted for 4.0% and 3.7% of revenue in 1H2019 and 1H2018 respectively.

Depreciation and Amortisation

In 1H2019, the depreciation of property, plant and equipment and amortisation of leasehold land and land use rights for the continuing operations of the Group amounted to HK$13.8 million, representing a decrease of 7.4% from HK$14.9 million in 1H2018. This accounted for 3.5% and 3.8% of revenue in 1H2019 and 1H2018 respectively.

FINANCIAL REVIEW (Continued)

Net Profit

Profit attributable to owners of the Company for the six months ended 30 June 2019 was HK$5.1 million, representing an increase of 19.0% from HK$4.2 million in 1H2018. The net profit margin (calculated as profit for the period from continuing operations as a ratio of revenue) for six months ended 30 June 2019 was 1.3%, as compared to 1.2% in 1H2018.

Earnings per share for profit attributable to owners of the Company for the six months ended 30 June 2019 amounted to HK0.77 cent, as compared to HK0.65 cent in 1H2018.

Capital Expenditure

During 1H2019, capital expenditure amounted to HK$28.7 million (1H2018: HK$33.0 million). This amount was used mainly for the opening of new shops, revamping of existing retail shops, acquisition of production facilities in Mainland China and Tai Po plants, and the construction for the production plant in Kaiping, Mainland China.

Liquidity and Financial Resources Review

As at 30 June 2019, the Group had bank deposits and cash balance amounted to HK$82.6 million (31 December 2018: HK$128.4 million).

As at 30 June 2019, the gearing ratio of the Group was 0.31 (31 December 2018: 0.35), which was calculated based on total bank borrowings divided by equity attributable to owners of the Company.

As at 30 June 2019, the Group had total banking facilities of HK$115.6 million (31 December 2018: HK$134.5 million) of which HK$87.9 million (31 December 2018: HK$95.8 million) had been utilised.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by HK$141.8 million (31 December 2018: HK$50.1 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons to customers in Hong Kong of HK$144.5 million (31 December 2018: HK$145.1 million) which will reduce gradually over the time of each redemption by customers and are not expected to be settled by cash under normal business circumstances, and lease liabilities of HK$71.8 million (31 December 2018: nil) recognised pursuant to the adoption of HKFRS 16 "Leases" on 1 January 2019. Excluding the aforementioned receipts in advance and lease liabilities, the Group would have net current assets of HK$74.5 million (31 December 2018: HK$95.0 million) and current ratio of 1.52 (31 December 2018: 1.60).

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

Foreign Currency Risk

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

FINANCIAL REVIEW (Continued)

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments during the six months ended 30 June 2019.

Contingent Liabilities

(i) Taclon Industries Limited ("Taclon"), a subsidiary of the Company, is involved in a potential litigation claim amounted to approximately HK$10.3 million (the "Alleged Debt"). It is the understanding of the Directors of the Company that the Alleged Debt is a personal debt of Taclon's ex-director. The Directors of the Company are of the view that Taclon did not or does not owe the claimant the Alleged Debt and will vigorously defend the Taclon's position in the legal proceeding. Moreover, AC Alliance Investment Limited, a related company outside the Group, had confirmed, covenant and undertaken to indemnify and keep indemnified fully Taclon against any cost, loss or damages arising from the litigation.

(ii) Taclon has several pending litigations and claims with its former employees which the Directors consider an outflow of resources is not probable.

Human Resources

As at 30 June 2019, the Group employed approximately 1,194 employees. Remuneration was based on market price, individual qualification and experience, and discretionary bonus were offered based on years of service and performance appraisal.

During the six months ended 30 June 2019, various training activities, such as orientation on retail shop and back office operations, customer services and sales skills, product knowledge (Herbal Ambassador Program) 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 talents, enhancing the leadership skills of the participants including their professional and managerial techniques as well as their knowledge in machinery monitoring and production processing.

AWARDS AND CORPORATE SOCIAL RESPONSIBILITY

The Group has, since its founding, sought to contribute to the industry and society, as well as the wellbeing of all staff members. In meeting its corporate social responsibility, the Group has been honoured with numerous awards and accolades, including those listed below during the review period.

AWARD	ISSUER OF AWARD
Trusted Brands 2019 – Platinum Award (Chinese Soup/Herbal Tea Shop)	Reader's Digest
The Hong Kong Q-Mark Service Scheme & Q-Mark Elite Brand Awards 2019	Federation of Hong Kong Industries
Hong Kong Service Awards 2019	East Week
2019 Quality E-Shop	Hong Kong Retail Management Association
Food Safety Enterprise 2019-2020	International Food Safety Association
Green Office Label and Eco-Healthy Workplace Label 2019	World Green Organisation
10 Years plus Caring Company logo 2006-2019	Hong Kong Council of Social Service
Happiness-at-Work 5 years+	Hong Kong Productivity Council

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to conducting environmentally and socially responsible business practices. True to this commitment, it has continued to sponsor discount coupons as incentives to customers using the recycling machines found in over 50 locations across Hong Kong. Consequently, over 97,000 containers, both plastic and metal, were collected and recycled through such machines in 1H2019.

Furthermore, it has continued to offer food waste from the Group's Hong Kong factory to a qualified recycling company on a daily basis. Such waste is subsequently processed at the Organic Resources Recovery Centre Phase 1 at Siu Ho Wan, which commenced operation in 2018. In 1H2019, approximately 69 tonnes of food waste were recycled, resulting in the reduction of approximately 18 tonnes of CO_2-equivalent Greenhouse Gas emissions.

To further reduce the use of disposable materials, the Group participated in "No Tissue Day 2019", "No Straw Campaign" and "Paper Saving Campaign" initiated by Christian Family Service Centre, Ocean Park Conservation Foundation and World Green Organisation ("WGO") respectively in 1H2019. In promoting environmental conscious practices as well as protecting the wellbeing of staff, the Group received the "Green Office Label" and "Eco-Healthy Workplace Label" from the WGO for the second consecutive year.

The Group is also an advocate of social advancement, which includes improving the well-being of its employees, customers and members of the community. In respect of its workforce, the Group has consequently organised nearly 70 training courses in 1H2019 to enhance the knowledge and skills of staff at all levels, attracting an aggregate of over 700 attendees.

As for protecting the wellbeing of customers, the Group observes stringent quality controls while operating its Tai Po production plant. This has led to the earning of the "Food Safety Enterprise" title from the International Food Safety Association. With regard to giving back to the community, the Group has continued to work with several food banks, and has donated over 25,000 food items to those in need during the review period.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	(Unaudited) Six months ended 30 June 2019 HK$'000	2018 HK$'000 (Restated)
Continuing operations			
Revenue	5,6	**390,903**	387,348
Cost of sales	7	**(148,216)**	(152,651)
Gross profit		**242,687**	234,697
Other income/(losses)	6	**1,538**	(123)
Selling and distribution costs	7	**(43,146)**	(40,928)
Administrative and operating expenses	7	**(192,132)**	(188,006)
Operating profit		**8,947**	5,640
Finance income		**38**	53
Finance costs		**(2,466)**	(735)
Finance costs, net		**(2,428)**	(682)
Share of results of joint ventures		**(50)**	–
Profit before income tax		**6,469**	4,958
Income tax expense	8	**(1,345)**	(119)
Profit for the period from continuing operations		**5,124**	4,839
Loss for the period from discontinued operation	10	**–**	(2,100)
Profit for the period		**5,124**	2,739
Profit/(loss) attributable to:			
Owners of the Company		**5,055**	4,248
Non-controlling interests		**69**	(1,509)
		5,124	2,739

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	(Unaudited) Six months ended 30 June 2019 HK$'000	2018 HK$'000 (Restated)
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
– Currency translation differences for continuing operations		**(400)**	(1,468)
– Currency translation differences for discontinued operation		**–**	89
Other comprehensive loss, net of tax		**(400)**	(1,379)
Total comprehensive income for the period		**4,724**	1,360
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**4,676**	2,885
Non-controlling interests		**48**	(1,525)
		4,724	1,360
Total comprehensive income/(loss) attributable to owners of the Company arises from:			
Continuing operations		**4,676**	4,896
Discontinued operation		**–**	(2,011)
		4,676	2,885
Earnings per share for profit from continuing operations attributable to owners of the Company			
– Basic and diluted (HK cent per share)	9	**0.77**	0.97
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted (HK cent per share)	9	**0.77**	0.65

The notes on pages 19 to 46 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
ASSETS			
Non-current assets			
Leasehold land and land use rights	13	–	56,059
Property, plant and equipment	12	302,458	288,562
Right-of-use assets	2.3(a)	169,644	–
Investments in joint ventures		60	–
Prepayments and deposits		29,091	28,271
Deferred income tax assets		10,693	11,438
		511,946	384,330
Current assets			
Inventories		38,131	32,942
Trade receivables	14	41,768	43,356
Prepayments, deposits and other receivables		49,917	45,893
Amount due from a related company		690	690
Amount due from a joint venture		1,682	–
Tax recoverable		1,715	1,715
Cash and cash equivalents		82,621	128,391
		216,524	252,987
Total assets		728,470	637,317
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	6,559	6,559
Share premium		214,999	214,999
Reserves		54,021	50,369
		275,579	271,927
Non-controlling interests		(185)	(233)
Total equity		275,394	271,694

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		**46,617**	–
Provision for reinstatement costs	19	**4,831**	3,830
Deferred income tax liabilities		**86**	86
Bank borrowings	21	**43,266**	58,615
		94,800	62,531
Current liabilities			
Trade payables	17	**32,216**	40,450
Accruals and other payables	18	**57,644**	71,499
Provision for reinstatement costs	19	**2,035**	3,772
Receipts in advance	20	**150,374**	151,057
Lease liabilities		**71,780**	–
Bank borrowings	21	**43,124**	35,477
Taxation payable		**1,103**	837
		358,276	303,092
Total liabilities		**453,076**	365,623
Total equity and liabilities		**728,470**	637,317
Net current liabilities		**(141,752)**	(50,105)
Total assets less current liabilities		**370,194**	334,225

The notes on pages 19 to 46 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2019 (audited)	**6,559**	**214,999**	**8,123**	**5,421**	**(4,313)**	**41,138**	**271,927**	**(233)**	**271,694**
Change in accounting policies (Note 2.3)	**–**	**–**	**–**	**–**	**–**	**(1,024)**	**(1,024)**	**–**	**(1,024)**
Restated total equity at the beginning of the financial year	**6,559**	**214,999**	**8,123**	**5,421**	**(4,313)**	**40,114**	**270,903**	**(233)**	**270,670**
Comprehensive income									
Profit for the period	**–**	**–**	**–**	**–**	**–**	**5,055**	**5,055**	**69**	**5,124**
Other comprehensive loss									
Currency translation differences	**–**	**–**	**–**	**–**	**(379)**	**–**	**(379)**	**(21)**	**(400)**
Total comprehensive (loss)/ income for the period	**–**	**–**	**–**	**–**	**(379)**	**5,055**	**4,676**	**48**	**4,724**
Balance at 30 June 2019 (unaudited)	**6,559**	**214,999**	**8,123**	**5,421**	**(4,692)**	**45,169**	**275,579**	**(185)**	**275,394**
Balance at 1 January 2018 (audited)	6,559	214,999	8,123	5,421	3,152	36,224	274,478	1,038	275,516
Comprehensive income/(loss)									
Profit/(loss) for the period	–	–	–	–	–	4,248	4,248	(1,509)	2,739
Other comprehensive loss									
Currency translation differences	–	–	–	–	(1,363)	–	(1,363)	(16)	(1,379)
Total comprehensive (loss)/ income for the period	–	–	–	–	(1,363)	4,248	2,885	(1,525)	1,360
Balance at 30 June 2018 (unaudited)	6,559	214,999	8,123	5,421	1,789	40,472	277,363	(487)	276,876

The notes on pages 19 to 46 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	(Unaudited) Six months ended 30 June 2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash generated from operations		**26,552**	25,985
Income tax refund/(paid)		**54**	(55)
Net cash generated from operating activities		**26,606**	25,930
Cash flows from investing activities			
Purchase of property, plant and equipment		**(27,462)**	(40,757)
Proceeds from disposal of property, plant and equipment		**2,037**	126
Reinstatement costs paid for shop and office premises	19	**(1,194)**	(469)
Advance to a joint venture		**(1,000)**	–
Investments in joint ventures		**(110)**	–
Payment for acquisition of subsidiary, net of cash acquired		**(400)**	–
Decrease in pledged bank deposits		**–**	1,070
Increase in bank deposit with original maturity over 3 months		**–**	(1,515)
Interest received		**38**	54
Net cash used in investing activities		**(28,091)**	(41,491)
Cash flows from financing activities			
Principal elements of lease payments		**(33,458)**	–
Proceeds from bank borrowings	21	**30,000**	45,000
Repayment of bank borrowings	21	**(37,702)**	(12,337)
Interest paid		**(3,034)**	(735)
Net cash (used in)/generated from financing activities		**(44,194)**	31,928
Net (decrease)/increase in cash and cash equivalents		**(45,679)**	16,367
Effect of currency translation differences		**(91)**	(309)
Cash and cash equivalents at beginning of the period		**128,391**	113,588
Cash and cash equivalents at end of the period		**82,621**	129,646

The notes on pages 19 to 46 form an integral part of this condensed consolidated interim financial information.

1 GENERAL INFORMATION

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

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

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

These unaudited condensed consolidated interim financial information (the "interim financial information") are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These unaudited interim financial statements were approved for issuance by the Board of Directors on 23 August 2019.

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 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

During the year ended 31 December 2018, the Group discontinued the retail business in the PRC; the comparative information has been restated.

The Group's current liabilities exceeded its current assets by HK$141,752,000 as at 30 June 2019 (31 December 2018: HK$50,105,000). Sales of prepaid coupons to customers in Hong Kong resulted in non-refundable receipts in advance included in current liabilities, which will reduce gradually over the time of each redemption by customers and are not expected to be settled in cash under normal business circumstances. Excluding the non-refundable receipts in advance of HK$144,487,000 for the Hong Kong retail business (31 December 2018: HK$145,060,000) included in current liabilities, the Group would have net current assets of HK$2,735,000 as at 30 June 2019 (31 December 2018: HK$94,955,000). The increase in net current liabilities is also due to the increase in current lease liabilities of HK$71,780,000 as at 30 June 2019 upon the adoption of HKFRS 16 "Leases" (Note 2.3(a)). The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 30 June 2019. The directors are of the opinion that, taking into account the anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance and the continued availability of the Group's bank facilities, the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming twelve months from 30 June 2019. Accordingly, these condensed consolidated interim financial information have been prepared on a going concern basis.

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

2.2 Summary of significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

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

2.2.1 Joint arrangements

Under HKFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures only.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the statement of financial position.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with Note 2.8 as disclosed in the annual financial statements for the year ended 31 December 2018.

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

2.2 Summary of significant accounting policies (Continued)

2.2.2 Adoption of new accounting policy in the current interim period

(a) New and amended standards adopted by the Group

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

HKFRS 16	Leases

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

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

HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Annual Improvements Project (Amendment)	Annual Improvements 2015 – 2017 Cycle

(b) New and amended standards not yet adopted

The following new standards and amendments have been issued but are not effective for the financial year beginning on or after 1 January 2019 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendment)	Definition of Materials	1 January 2020
HKFRS 3 (Amendment)	Definition of Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

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

2.3 Changes in accounting policies

The following explains the impact of the adoption of HKFRS 16 "Leases" on the Group's condensed consolidated interim financial information.

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

(a) Adjustments recognised on adoption of HKFRS 16

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

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

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

2.3 Changes in accounting policies (Continued)

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

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Leasehold land and land use rights are also reclassified to right-of-use assets with amount recognised in the consolidated statement of financial position as at 31 December 2018.

The recognised right-of-use assets relate to the following types of assets:

	Leasehold land and land use rights HK$'000	Shop properties HK$'000	Total right-of-use assets HK$'000
At 1 January 2019	–	–	–
Change in accounting policy	56,059	104,845	160,904
Restated total at 1 January	56,059	104,845	160,904
Additions	131	43,409	43,540
Depreciation	(804)	(33,930)	(34,734)
Exchange differences	(66)	–	(66)
At 30 June 2019	55,320	114,324	169,644

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

2.3 Changes in accounting policies (Continued)

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

The following table shows the adjustment for change in accounting policy recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Statement of financial position (extract)	Audited 31 December 2018 As originally presented HK$'000	Unaudited HKFRS 16 HK$'000	Unaudited 1 January 2019 Restated HK$'000
Non-current assets			
Leasehold land and land use rights	56,059	(56,059)	–
Right-of-use assets	–	160,904	160,904
Deferred income tax assets	11,438	595	12,033
Total assets	637,317	105,440	742,757
Non-current liabilities			
Lease liabilities	–	48,222	48,222
Current liabilities			
Accruals and other payables	71,499	(1,982)	69,517
Lease liabilities	–	60,224	60,224
Total liabilities	365,623	106,464	472,087
Equity			
Reserves	50,369	(1,024)	49,345
Total equity	271,694	(1,024)	270,670

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

2.3 Changes in accounting policies (Continued)

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

(i) Impact on segment disclosures

The segment assets of the Hong Kong retail business has increased by HK$114,324,000 as at 30 June 2019 as a result of the change in accounting policy.

(ii) Practical expedients applied

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

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

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

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 4 years but may have extension options as described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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

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

2.3 Changes in accounting policies (Continued)

(b) The Group's leasing activities and how these are accounted for (Continued)

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

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

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

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

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

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

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

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

2.3 Changes in accounting policies (Continued)

(b) The Group's leasing activities and how these are accounted for (Continued)

(i) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). No potential future cash outflows have not been included in the lease liability because it is reasonably certain that the leases will be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current interim period, no such significant event or a significant change in circumstances occurred.

3 ESTIMATES

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no significant changes in the risk management or in any risk management policies since the Group's annual financial statements as at 31 December 2018.

4.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities except for the decrease in bank borrowings from HK$94,092,000 as at 31 December 2018 to HK$86,390,000 as at 30 June 2019. Of these borrowings, the Group expects HK$43,124,000 will be settled within 1 year, HK$23,752,000 in 1 to 2 years and the remaining HK$19,514,000 in 2 to 5 years. Also, as a result of change in accounting policy, lease liabilities increased from nil as at 31 December 2018 to HK$118,397,000 as at 30 June 2019. Of these liabilities, the Group expects HK$71,780,000 will be settled within 1 year, HK$30,770,000 in 1 to 2 years and the remaining HK$15,847,000 in 2 to 5 years.

4.3 Fair value estimation

The carrying values of the Group's financial assets, including trade receivables, deposits and other receivables, amount due from a related company, amount due from a joint venture and cash and cash equivalents, and financial liabilities, including trade payables, accruals and other payables and short-term bank borrowings, approximate their fair values due to their short maturities.

5 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a customer perspective and assess the performance of the operating segments based on the segment assets, segment revenue and segment results for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as these consolidated financial statements.

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

The sales of goods for both segments are recognised at a point of time.

During the year ended 31 December 2018, the Group discontinued the retail business in the PRC which was previously included in the "PRC Retail" segment; the comparative information has been restated.

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

Capital expenditure comprises additions to property, plant and equipment for the six months ended 30 June 2019 and 2018.

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, relocation of factories related expenses, share of results of joint ventures, 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 2019 and 2018 respectively.

5 REVENUE AND SEGMENT INFORMATION (Continued)

The segment information provided to the executive directors for the continuing operations for the six months ended 30 June 2019 and 2018 are as follows:

	(Unaudited) Six months ended 30 June 2019		
	Hong Kong Retail HK$'000	Wholesale HK$'000	Total HK$'000
Segment revenue	299,734	94,686	394,420
Less: Inter-segment revenue	(3,235)	(282)	(3,517)
Revenue from external customers	296,499	94,404	390,903
Segment results	43,324	(4,474)	38,850
Corporate expenses			(27,402)
Relocation of factories related expenses			(2,501)
Share of results of joint ventures			(50)
Finance costs, net (Note)			(2,428)
Profit before income tax			6,469
Income tax expense			(1,345)
Profit for the period			5,124
Other segment items:			
Capital expenditure	7,446	21,239	28,685
Depreciation and amortisation	45,031	3,491	48,522
Gain on disposal of property, plant and equipment	28	501	529
Interest income	10	28	38

Note: Finance costs included interest expenses arisen from lease liabilities of HK$1,675,000.

5 REVENUE AND SEGMENT INFORMATION (Continued)

	(Unaudited) Six months ended 30 June 2018		
	Hong Kong Retail HK$'000	Wholesale HK$'000	Total HK$'000 (Restated)
Segment revenue	282,313	106,335	388,648
Less: Inter-segment revenue	(2)	(1,298)	(1,300)
Revenue from external customers	282,311	105,037	387,348
Segment results	36,838	(2,095)	34,743
Corporate expenses			(25,923)
Relocation of factories related expenses			(3,180)
Finance costs, net			(682)
Profit before income tax			4,958
Income tax expense			(119)
Profit for the period			4,839
Other segment items:			
Capital expenditure	8,369	24,641	33,010
Depreciation and amortisation	10,515	4,369	14,884
Loss on disposal of property, plant and equipment	(40)	(138)	(178)
Provision/(reversal of provision) for impairment on trade receivables	35	(209)	(174)
Interest income	19	34	53

5 REVENUE AND SEGMENT INFORMATION (Continued)

The segment assets as at 30 June 2019 and 31 December 2018 are as follows:

	Hong Kong Retail HK$'000	Wholesale HK$'000	Elimination HK$'000	Total HK$'000
As at 30 June 2019 (Unaudited)				
Segment assets	**433,732**	**267,336**	**(1,761)**	**699,307**
Amount due from a joint venture				**1,682**
Amount due from a related company				**690**
Investments in joint ventures				**60**
Tax recoverable				**1,715**
Deferred income tax assets				**10,693**
Corporate assets				**14,323**
Total assets				**728,470**
As at 31 December 2018 (Audited)				
Segment assets	346,452	254,640	(901)	600,191
Amount due from a related company				690
Tax recoverable				1,715
Deferred income tax assets				11,438
Corporate assets				16,454
Discontinued operation				6,829
Total assets				637,317

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

6 REVENUE, OTHER INCOME/(LOSSES), NET

The Group's revenue, other income and other losses, net for the continuing operations recognised during the six months ended 30 June 2019 and 2018 are as follows:

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
		(Restated)
Revenue		
Sale of goods	**388,430**	384,954
Revenue recognised upon expiry of pre-paid credits	**2,473**	2,394
	390,903	387,348
Other income/(losses)		
Insurance claim	**504**	161
Exchange differences	**139**	(446)
Gain/(loss) on disposal of property, plant and equipment	**529**	(178)
Others	**366**	340
	1,538	(123)

7 EXPENSES BY NATURE

	(Unaudited) Six months ended 30 June 2019 HK$'000	2018 HK$'000 (Restated)
Cost of inventories sold	**113,826**	115,167
Lease rental in respect of retail outlets (Note)		
– Minimum rental	**16,874**	53,155
– Contingent rental	**167**	65
Lease rental in respect of storage spaces and office premises (Note)	**10,818**	9,800
Advertising and promotional expenditure	**15,635**	14,188
Depreciation of property, plant and equipment	**13,788**	14,084
Depreciation of right-of-use assets	**34,734**	–
Amortisation of leasehold land and land use rights (Note 13)	**–**	800
Communication and utilities	**15,927**	16,262
Employee benefit expenses (including directors' emoluments)	**123,946**	120,745
Reversal of provision for impairment on trade receivables	**–**	(174)
Provision for impairment on amount due from a joint venture	**569**	–
Legal and professional fees	**4,106**	4,009
Tools, repair and maintenance expenses	**4,749**	5,264
Transportation and distribution expenses	**17,780**	17,837
Others	**10,575**	10,383
Total cost of sales, selling and distribution costs and administrative and operating expenses	**383,494**	381,585

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

8 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 (for six months ended 30 June 2018: 16.5% and 25% respectively).

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

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Current income tax		
– PRC CIT on profit for the period	**–**	30
– Under-provision in prior years	**6**	119
Deferred income tax	**1,339**	–
Income tax expense	**1,345**	149
Income tax expense is attributable to:		
Profit from continuing operations	**1,345**	119
Loss from discontinued operation	**–**	30
	1,345	149

9 EARNINGS PER SHARE

	(Unaudited) Six months ended 30 June 2019	2018
Profit from continuing operations attributable to owners of the Company (HK$'000)	**5,055**	6,348
Loss from discontinued operation attributable to owners of the Company (HK$'000)	**–**	(2,100)
Profit for the purpose of basic and diluted earnings per share from continuing and discontinued operations (HK$'000)	**5,055**	4,248
Weighted average number of ordinary shares for the calculation of basic and diluted earnings per share (thousands)	**655,944**	655,944
Earnings per share for profit from continuing operations attributable to owners of the Company		
– Basic earnings per share (HK cent)	**0.77**	0.97
– Diluted earnings per share (HK cent)	**0.77**	0.97
Loss per share for loss from discontinued operation attributable to owners of the Company		
– Basic loss per share (HK cent)	**–**	(0.32)
– Diluted loss per share (HK cent)	**–**	(0.32)
Earnings per share for profit attributable to owners of the Company		
– Basic earnings per share (HK cent)	**0.77**	0.65
– Diluted earnings per share (HK cent)	**0.77**	0.65

(a) Basic

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

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted earnings per share for the six months ended 30 June 2019 and 2018 equal basic earnings per share as there were no outstanding share options as at both period ends.

10 DISCONTINUED OPERATION

During the year ended 31 December 2018, the Group discontinued the retail business in the PRC. The results of the discontinued operation for the period ended 30 June 2019 and 2018 are presented below:

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Revenue	–	4,540
Other income	–	18
Cost of sales and expenses	–	(6,628)
Loss before income tax	–	(2,070)
Income tax expense	–	(30)
Loss from discontinued operation	–	(2,100)
Currency translation differences	–	89
Total comprehensive loss arises from discontinued operation	–	(2,011)

Loss from discontinued operation has been arrived at after charging:

	(Unaudited) Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
Provision for impairment on property, plant and equipment	–	124
Depreciation of property, plant and equipment	–	314

The net cash flows incurred by the discontinued operation are as follow:

	(Unaudited) Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
Net cash used in operating activities	–	(823)
Net cash generated from investing activities	–	721
Net decrease in cash used in discontinued operation	–	(102)

11 DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

12 PROPERTY, PLANT AND EQUIPMENT

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
At 1 January	**288,562**	236,843
Acquisition of a subsidiary	**754**	–
Additions	**28,685**	33,030
Disposals	**(1,508)**	(304)
Depreciation	**(13,788)**	(14,398)
Impairment losses	**–**	(124)
Exchange differences	**(247)**	(482)
At 30 June	**302,458**	254,565

Depreciation of HK$4,154,000 has been charged in 'cost of sales', HK$9,634,000 in 'administrative and operating expenses' for the six months ended 30 June 2019.

Depreciation of HK$5,235,000 has been charged in 'cost of sales', HK$9,159,000 in 'administrative and operating expenses' and HK$4,000 in 'selling and distribution costs' for the six months ended 30 June 2018.

13 LEASEHOLD LAND AND LAND USE RIGHTS

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
At 1 January	**56,059**	58,054
Change in accounting policy (Note 2.3(a))	**(56,059)**	–
Restated total at 1 January	–	58,054
Amortisation (Note 7)	–	(800)
Exchange differences	–	(329)
At 30 June	–	56,925

Amortisation of leasehold land and land use rights of HK$800,000 has been charged in 'administrative and operating expenses' for the six months ended 30 June 2018.

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Leasehold land and land use rights located in:		
– Hong Kong	–	28,896
– PRC	–	27,163
	–	56,059

The useful lives of the leasehold land and land use rights are both 50 years.

14 TRADE RECEIVABLES

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Trade receivables	**44,074**	45,666
Less: Provision for impairment on trade receivables	**(2,306)**	(2,310)
	41,768	43,356

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

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Less than 30 days	**22,427**	18,487
31 – 90 days	**17,444**	22,722
Over 90 days	**1,897**	2,147
	41,768	43,356

15 SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares HK$'000
Authorised:		
At 31 December 2018, 1 January 2019 and 30 June 2019 (Unaudited)	**1,000,000,000**	**10,000**
Issued and fully paid:		
At 31 December 2018, 1 January 2019 and 30 June 2019 (Unaudited)	**655,944,000**	**6,559**

16 SHARE BASED PAYMENTS

A share option scheme was approved on 11 June 2014 by the shareholders of the Company. The subscription price per share shall be determined by the Board of Directors and notified to the grantee at the time of offer of the option. The scheme shall be valid and effective for a period of 10 years from the 11 June 2014, being the date which the scheme was conditionally approved and adopted. There was no share option granted after approval till 30 June 2019.

17 TRADE PAYABLES

As at 30 June 2019 and 31 December 2018, the ageing analysis of the trade payables, based on invoice date are as follows:

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
0 – 30 days	**16,533**	18,826
31 – 60 days	**10,701**	14,538
61 – 90 days	**3,476**	4,355
Over 90 days	**1,506**	2,731
	32,216	40,450

18 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Accruals for employee benefit expenses	**18,579**	20,118
Provision for restructuring costs	**–**	13,051
Accruals for marketing and promotional expenses	**1,733**	1,550
Accruals for sales rebate	**973**	2,252
Rental and related expenses payable	**2,666**	4,601
Office and utilities expenses payable	**3,896**	2,637
Deferred revenue	**2,180**	1,626
Consideration payable for property, plant and equipment acquired	**3,979**	2,983
Accruals for transportation and delivery charges	**6,119**	4,411
Accruals for audit fee	**3,125**	2,616
Other accruals and other payables	**14,394**	15,654
	57,644	71,499

19 PROVISION FOR REINSTATEMENT COSTS

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Non-current	4,831	3,830
Current	2,035	3,772
	6,866	7,602

Movements on the Group's provision for reinstatement costs are as follows:

	(Unaudited) Six months ended 30 June	
	2019 HK$'000	2018 HK$'000
At 1 January	**7,602**	6,523
Additional provision during the period	**458**	743
Utilisation	**(1,194)**	(469)
At 30 June	**6,866**	6,797

20 RECEIPTS IN ADVANCE

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Receipts in advance	**150,374**	151,057

Movements on the Group's receipts in advance are as follows:

	Note	(Unaudited) Six months ended 30 June 2019 HK$'000	2018 HK$'000
At 1 January		**151,057**	146,663
Change in accounting policy		**–**	(8,843)
Restated total at 1 January		**151,057**	137,820
Receipt from sales of pre-paid coupons and credits during the period		**172,781**	163,925
Revenue recognised upon the redemption of products by customers	(a)	**(170,977)**	(161,786)
Revenue recognised upon expiry of pre-paid credits	(b)	**(2,473)**	(2,394)
Exchange differences		**(14)**	(112)
At 30 June		**150,374**	137,453

Notes:

(a) The amounts represent revenue recognised in the condensed consolidated interim statement of comprehensive income as a result of redemption of products by customers during the period with the addition of revenue recognised as a result of breakage estimate.

(b) The amounts represent revenue recognised in the condensed consolidated interim statement of comprehensive income for pre-paid credits expired in accordance with the contractual periods stipulated in the respective terms and conditions.

21 BANK BORROWINGS

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Non-current	43,266	58,615
Current	43,124	35,477
	86,390	94,092

Movements in bank borrowings are analysed as follows:

	(Unaudited) Six months ended 30 June	
	2019 HK$'000	2018 HK$'000
At 1 January	**94,092**	52,442
Repayments of bank borrowings	**(37,702)**	(12,337)
Proceeds from bank borrowings	**30,000**	45,000
At 30 June	**86,390**	85,105

The carrying amounts of the Group's bank borrowings approximate their fair values.

The carrying amounts of the Group's bank borrowings are denominated in HK$.

22 CONTINGENT LIABILITIES

(i) Taclon Industries Limited ("Taclon"), a subsidiary of the Company, is involved in a potential litigation with a claim amounting to approximately HK$10.3 million (''Alleged Debt"). It is the understanding of the Directors of the Company that the Alleged Debt is a personal debt of a Taclon's ex-director. The Directors are of the view that Taclon did not or does not owe the claimant the Alleged Debt and will vigorously defend Taclon's position in the legal proceeding. Moreover, AC Alliance Investment Limited, a related company outside the Group, had confirmed, covenant and undertaken to indemnify and keep indemnified fully Taclon against any cost, loss or damages arising from the litigation.

(ii) Taclon has several pending litigations and claims with its former employees of which the Directors consider an outflow of resources is not probable.

23 RELATED PARTIES BALANCES AND TRANSACTIONS

(a) Amounts due from related parties

The amounts due from related parties are unsecured, interest-free and repayable on demand.

The Group had the following material balances due from the related parties:

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Amount due from a related company	**690**	690
Amount due from a joint venture	**1,682**	–
Amount due from a non-controlling interest	**1,000**	1,000

The amounts due from related parties are denominated in HK$.

(b) Transactions with a joint venture

The following transactions were undertaken by the Group with a joint venture during the period ended 30 June 2019:

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Sales of goods	**91**	–
Service income	**23**	–

These transactions are made of terms mutually agreed by the relevant parties.

23 RELATED PARTIES BALANCES AND TRANSACTIONS (Continued)

(c) Key management compensation

Key management includes directors (executive and non-executive) and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**8,575**	9,862
Pension costs	**104**	126
	8,679	9,988

24 COMMITMENTS

Capital commitments

The Group had the following capital expenditure contracted but not yet incurred and provided for:

	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Contracted but not provided for property, plant and equipment	**15,142**	22,706

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the interests and short positions of the Directors of the Company and their associates in any shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which had been notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be disclosed, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Model Code") and the "Code of Conduct for Securities Transactions by Directors of the Company" adopted by the Company (the "Code of Conduct") were as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of total issued Shares (%)
Ms. Wong Pui Chu (Notes 1, 2 & 3)	Interests held jointly with other persons; Beneficial owner; Interest of controlled corporation	398,552,600 (Long position)	60.76
Mr. Tse Po Tat (Notes 1 & 4)	Interests held jointly with other persons; Interest of controlled corporation	398,552,600 (Long position)	60.76
Dr. Szeto Wing Fu (Note 5)	Interest of controlled corporation	24,704,600 (Long position)	3.77

Notes:

(1) Pursuant to a deed of confirmation dated 27 March 2014 executed by Ms. Wong Pui Chu, Mr. Tse Po Tat, the late Mr. Kwan Wang Yung, Think Expert Investments Limited ("Think Expert"), YITAO Investments Limited ("YITAO") and Prestigious Time Limited ("Prestigious Time") (collectively the "Controlling Shareholders"), the Controlling Shareholders have agreed to jointly control their respective interests in the Company. Decisions as to the business and operations of the Group shall be made in accordance with the unanimous consent of all the Controlling Shareholders. Each of the Controlling Shareholders shall exercise their respective voting rights in the Company in the same way. Hence, each of the Controlling Shareholders is deemed to be interested in all the Shares held by the Controlling Shareholders in aggregate by virtue of the SFO.

(2) The Company was directly owned as to 1.02% (being 6,706,000 Shares) by Ms. Wong Pui Chu.

(3) The Company was directly owned as to 29.22% (being 191,638,200 Shares) by Think Expert. By virtue of her 100% shareholding of Think Expert, Ms. Wong Pui Chu is deemed to be interested in the same number of Shares held by Think Expert.

(4) The Company was directly owned as to 16.63% (being 109,122,400 Shares) by YITAO. By virtue of his 100% shareholding of YITAO, Mr. Tse Po Tat is deemed to be interested in the same number of Shares held by YITAO.

(5) The Company was directly owned as to 3.77% (being 24,704,600 Shares) by Aolong Limited ("Aolong"). By virtue of his 100% shareholding of Aolong, Dr. Szeto Wing Fu is deemed to be interested in the same number of Shares held by Aolong.

Save as disclosed above, as at 30 June 2019, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and the Code of Conduct.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, so far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of total issued Shares (%)
Prestigious Time (Note 1)	Interests held jointly with other persons; Beneficial owner	398,552,600 (Long position)	60.76
Think Expert (Note 2)	Interests held jointly with other persons; Beneficial owner	398,552,600 (Long position)	60.76
YITAO (Note 3)	Interests held jointly with other persons; Beneficial owner	398,552,600 (Long position)	60.76
Ms. Chan Suk Hing Comita (Note 4)	Interest of spouse	398,552,600 (Long position)	60.76
Mr. Kwan Wang Yung (deceased)	Interests held jointly with other persons; Interest of controlled corporation	398,552,600 (Long position)	60.76
Mrs. Kwan Chan Lai Lai (Note 5)	Interest of spouse	398,552,600 (Long position)	60.76

Notes:

(1) The Company was directly owned as 13.89% (being 91,086,000 Shares) by Prestigious Time. By virtue of his 100% shareholding of Prestigious Time, the late Mr. Kwan Wang Yung (the former managing Director and an executive Director of the Company) is deemed to be interested in the same number of Shares held by Prestigious Time.

(2) The interest of Think Expert was disclosed as the interest of Ms. Wong Pui Chu in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares".

(3) The interest of YITAO was disclosed as the interest of Mr. Tse Po Tat in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares".

(4) Ms. Chan Suk Hing Comita is the spouse of Mr. Tse Po Tat and is therefore deemed to be interested in the shares that Mr. Tse Po Tat is interested in under the SFO.

(5) Mrs. Kwan Chan Lai Lai is the spouse of the late Mr. Kwan Wang Yung and is therefore deemed to be interested in the shares that the late Mr. Kwan Wang Yung is interested in under the SFO.

Save as disclosed above, as at 30 June 2019, the Directors had not been notified of any other corporation or individual (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2019, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 11 June 2014. As at 30 June 2019, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 63,200,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commenced on the Stock Exchange. The total number of Shares issued and to be issued upon the exercise of the options granted to each eligible participant (Note 1) under the Share Option Scheme and any other schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

The purpose of the Share Option Scheme is to enable the Company to grant options to the eligible participants to (1) motivate the eligible participants to optimize their performance and efficiency for the benefit of the Group; and (2) attract and retain or otherwise maintain ongoing business relationship with the eligible participants whose contributions are, will or expected to be beneficial to the Group. The Board may, at its own discretion, grant an option to the eligible participants to subscribe for the shares of the Company at an exercise price (Note 2) and subject to the other terms of the Share Option Scheme.

The Share Option Scheme will remain in force for a period of ten years from its effective date (i.e. will expire on 10 June 2024). Subject to certain restrictions contained in the Share Option Scheme, an option may be exercised in accordance with the terms of the Share Option Scheme and the terms of grant thereof at any time during the applicable option period, which is not more than ten years from the date of grant of option. There is no general requirement on the minimum period for which as option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, at the time of granting any option, the Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations including but not limited to those in relation to the minimum period of the options to be held and/or the performance targets to be achieved as the Board may determine in its absolute discretion.

The Board confirms that the Share Option Scheme is in compliance with Chapter 17 of the Listing Rules. During the six months ended 30 June 2019, no option had been granted, exercised, cancelled or lapsed under the Share Option Scheme. A total of 63,200,000 Shares are available for issue under the Share Option Scheme, representing approximately 9.63% of the total issued capital of the Company as at 30 June 2019.

Notes:

1. "Eligible Participant'" includes: (i) any Director, employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliates"), or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any Director, employee, consultant, professional, customer, supplier, agent, partner, advisor of or contractor to the Group or an Affiliate.

2. The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall be not less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day, (ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option and (iii) the nominal value of a Share on the date of grant. The exercise price shall also be subject to any adjustments made in a situation contemplated under effects of alterations to capital.

Further details of the shares options are set out in Note 16 to the condensed consolidated interim financial information.

CHANGE OF DIRECTOR'S INFORMATION

Subsequent to publication of the 2018 Annual Report, the change in information of Directors is set out below pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules:

– Professor SIN Yat Ming, an Independent Non-executive Director of the Company, has been appointed as an adjunct professor of the Department of Management of CUHK Business School with effect from 1 March 2019.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2019.

CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2019.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Code of Conduct based on the required standard set out in the Model Code. For the six months ended 30 June 2019, 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 Group's financial reporting process, risk management and internal control systems, including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019.

PricewaterhouseCoopers, the external auditors of the Company, has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 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 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board
Tse Po Tat
Chairman and Executive Director

Hong Kong, 23 August 2019

HUNG FOOK TONG

Hung Fook Tong Group Holdings Limited
鴻福堂集團控股有限公司

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