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HUNG FOOK TONG GROUP HOLDINGS LIMITED

鴻福堂集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1446)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2024

HIGHLIGHTS

- Revenue for the year ended 31 December 2024 (“**2024**”) decreased by 7.7% to HK\$620.7 million from HK\$672.7 million for the year ended 31 December 2023 (“**2023**”).
 - Revenue from retail business decreased by 7.2% to HK\$467.3 million, with a retail network comprising 107 retail shops in Hong Kong as at 31 December 2024.
 - Revenue from wholesale business decreased by 9.2% to HK\$153.4 million.
- Gross profit for 2024 decreased by 6.2% to HK\$369.0 million from HK\$393.5 million in 2023, while gross profit margin for 2024 increased by 0.9 percentage point to 59.4% as compared to 58.5% in 2023.
- Loss attributable to owners of the Company for 2024 was HK\$13.7 million (2023: HK\$34.6 million).
- Loss per share for 2024 was HK2.09 cents (2023: HK5.28 cents).
- Receipts in advance as at 31 December 2024 increased by 9.1% to HK\$162.6 million (2023: HK\$149.0 million).

RESULTS

The board of directors (the “**Board**”) of Hung Fook Tong Group Holdings Limited (the “**Company**”) hereby announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2024 together with comparative figures for the previous financial year 2023 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024

		Year ended 31 December	
	Note	2024 HK\$'000	2023 HK\$'000
Revenue	3,4	620,732	672,729
Cost of sales	6	(251,732)	(279,248)
Gross profit		369,000	393,481
Other income, net	5	2,773	3,606
Selling and distribution costs	6	(51,474)	(57,190)
Administrative and operating expenses	6	(328,482)	(372,866)
Impairment loss on financial assets	6	(141)	(3,409)
Operating loss		(8,324)	(36,378)
Finance income	7	148	121
Finance costs	7	(10,108)	(8,680)
Finance costs, net	7	(9,960)	(8,559)
Loss before income tax		(18,284)	(44,937)
Income tax credit	8	2,474	2,321
Loss for the year		(15,810)	(42,616)
Loss attributable to:			
Owners of the Company		(13,693)	(34,621)
Non-controlling interests		(2,117)	(7,995)
		(15,810)	(42,616)

	Year ended 31 December	
	2024	2023
Note	HK\$'000	HK\$'000
Other comprehensive (loss)/income:		
<i>Item that may be reclassified to profit or loss</i>		
– Currency translation differences	(5,738)	(3,720)
<i>Item that will not be reclassified to profit or loss</i>		
– Remeasurements of employee benefit obligations	<u>873</u>	<u>(366)</u>
Other comprehensive loss, net of tax	<u>(4,865)</u>	<u>(4,086)</u>
Total comprehensive loss for the year	<u>(20,675)</u>	<u>(46,702)</u>
Total comprehensive loss attributable to:		
Owners of the Company	(18,400)	(38,635)
Non-controlling interests	<u>(2,275)</u>	<u>(8,067)</u>
	<u>(20,675)</u>	<u>(46,702)</u>
Loss per share for loss attributable to owners of the Company		
– Basic and diluted (<i>HK cents</i>)	9 <u>(2.09)</u>	<u>(5.28)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2024

		As at 31 December	
		2024	2023
	<i>Note</i>	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		233,150	254,880
Right-of-use assets		172,034	196,290
Intangible assets		1,593	2,297
Prepayments and deposits		21,083	23,268
Deferred income tax assets		10,568	8,589
		<u>438,428</u>	<u>485,324</u>
Current assets			
Inventories		24,938	38,575
Trade receivables	<i>11</i>	53,049	56,260
Prepayments, deposits and other receivables		43,291	43,646
Prepaid tax		296	1,428
Cash and cash equivalents		110,247	88,530
		<u>231,821</u>	<u>228,439</u>
Total assets		<u>670,249</u>	<u>713,763</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>12</i>	6,559	6,559
Reserves		253,192	271,592
		<u>259,751</u>	<u>278,151</u>
Non-controlling interests		<u>(24,550)</u>	<u>(22,275)</u>
Total equity		<u>235,201</u>	<u>255,876</u>

	<i>Note</i>	As at 31 December	
		2024	2023
		<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		55,464	72,934
Provision for reinstatement costs		5,057	5,324
Deferred income tax liabilities		5,014	6,113
Bank borrowings		5,001	—
Employee benefit obligations		3,992	4,121
		74,528	88,492
Current liabilities			
Trade payables	<i>13</i>	30,140	37,865
Accruals and other payables	<i>14</i>	52,277	59,274
Provision for reinstatement costs		3,485	3,355
Receipts in advance		162,555	149,002
Lease liabilities		77,551	82,446
Bank borrowings		33,753	36,566
Taxation payable		759	887
		360,520	369,395
Total liabilities		435,048	457,887
Total equity and liabilities		670,249	713,763
Net current liabilities		(128,699)	(140,956)
Total assets less current liabilities		309,729	344,368

NOTES

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 set of consolidated financial statements).

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

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated and have been approved for issue by the Board of Directors on 27 March 2025.

2 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Compliance with HKFRS and Hong Kong Companies Ordinance

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies Ordinance (Cap. 622).

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

2.2 Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention.

2.3 Basis of going concern

The Group’s current liabilities exceeded its current assets by HK\$128,699,000 as at 31 December 2024 (31 December 2023: HK\$140,956,000) and the Group incurred a loss for the year ended 31 December 2024 of HK\$15,810,000 (2023: HK\$42,616,000). The directors of the Company have reviewed the Group’s cash flow projections, which cover a period of 12 months from 31 December 2024. The directors are of the opinion that, taking into account the anticipated cash flows generated from the Group’s operations as well as the possible changes in its operating performance and the continued availability of the Group’s banking facilities, the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming 12 months from 31 December 2024. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

2 BASIS OF PREPARATION (CONTINUED)

2.4 Certain amendments to existing standards and interpretation adopted by the Group

The Group has applied the following amendments to existing standards and interpretation for the first time for their annual reporting period commencing 1 January 2024:

HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current
HKAS 1 (Amendments)	Non-current Liabilities with Covenants
HKFRS 16 (Amendments)	Lease Liabilities in a Sale and Leaseback
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements

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

2.5 Certain new standards, amendments to existing standards and interpretation issued not yet adopted

The following new standards, amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning on or after 1 January 2024 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 21 and HKFRS 1 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7 (Amendments)	Annual Improvements to HKFRS Accounting Standards	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements (new standard)	1 January 2027
HKFRS 19	Subsidiaries without Public Accountability: Disclosures	1 January 2027
Hong Kong Interpretation 5	Hong Kong Interpretation 5 Presentation of Financial Statements	1 January 2027
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

The Group will adopt the above new standards, amendments to existing standards and interpretation when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standards, amendments to existing standards and interpretation, none of which is expected to have material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

The segment information provided to the executive directors for the years ended 31 December 2024 and 2023 is as follows:

	Year ended 31 December 2024		
	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
Segment revenue	477,810	156,407	634,217
Less: Inter-segment revenue	(10,448)	(3,037)	(13,485)
Revenue from external customers	<u>467,362</u>	<u>153,370</u>	<u>620,732</u>
Segment results	21,557	19,802	41,359
Corporate expenses (<i>Note (a)</i>)			(49,683)
Finance costs, net			<u>(9,960)</u>
Loss before income tax			(18,284)
Income tax credit			<u>2,474</u>
Loss for the year			<u><u>(15,810)</u></u>
Other segment items:			
Capital expenditure	5,819	8,304	14,123
Depreciation and amortisation (excluding depreciation of right-of-use assets)	23,169	10,325	33,494
Depreciation of right-of-use assets	92,801	771	93,572
Losses on disposal of property, plant and equipment	<u>197</u>	<u>–</u>	<u>197</u>
	<u><u>119,987</u></u>	<u><u>11,880</u></u>	<u><u>131,867</u></u>
	Year ended 31 December 2023		
	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
Segment revenue	519,292	171,330	690,622
Less: Inter-segment revenue	(15,473)	(2,420)	(17,893)
Revenue from external customers	<u>503,819</u>	<u>168,910</u>	<u>672,729</u>
Segment results	(5,264)	17,460	12,196
Corporate expenses (<i>Note (a)</i>)			(48,574)
Finance costs, net			<u>(8,559)</u>
Loss before income tax			(44,937)
Income tax credit			<u>2,321</u>
Loss for the year			<u><u>(42,616)</u></u>
Other segment items:			
Capital expenditure	11,240	1,825	13,065
Depreciation and amortisation (excluding depreciation of right-of-use assets)	26,304	9,866	36,170
Depreciation of right-of-use assets	99,741	693	100,434
Losses on disposal of property, plant and equipment	382	–	382
Write-off of property, plant and equipment	<u>–</u>	<u>3,120</u>	<u>3,120</u>
	<u><u>137,667</u></u>	<u><u>14,499</u></u>	<u><u>152,166</u></u>

3 SEGMENT INFORMATION (CONTINUED)

The segment assets as at 31 December 2024 and 2023 are as follows:

	Hong Kong Retail HK\$'000	Wholesale HK\$'000	Elimination HK\$'000	Total HK\$'000
As at 31 December 2024				
Segment assets	436,237	204,682	(743)	640,176
Prepaid tax				296
Deferred income tax assets				10,568
Corporate assets (<i>Note (b)</i>)				19,209
Total assets				670,249
As at 31 December 2023				
Segment assets	466,256	217,410	(620)	683,046
Prepaid tax				1,428
Deferred income tax assets				8,589
Corporate assets (<i>Note (b)</i>)				20,700
Total assets				713,763

Notes:

- (a) Corporate expenses mainly included employee benefit expenses, depreciation of right-of-use assets and property, plant and equipment of headquarters office and auditors' remuneration for the years ended 31 December 2024 and 2023.
- (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 headquarters office as at 31 December 2024 and 2023.

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

The Company is domiciled in the Cayman Islands while the Group operates its business primarily in Hong Kong and the PRC. For the year ended 31 December 2024, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2023: Nil).

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

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Hong Kong	588,217	634,871
The PRC	19,113	24,406
Overseas	13,402	13,452
	620,732	672,729

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2024 and 2023.

3 SEGMENT INFORMATION (CONTINUED)

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

	As at 31 December	
	2024	2023
	HK\$'000	HK\$'000
Hong Kong	483,472	512,672
The PRC	156,704	170,374
	<u>640,176</u>	<u>683,046</u>

Non-current assets, other than deferred income tax assets, by geographical areas are as follows:

	As at 31 December	
	2024	2023
	HK\$'000	HK\$'000
Hong Kong	297,117	336,458
The PRC	130,743	140,277
	<u>427,860</u>	<u>476,735</u>

4 REVENUE

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

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Sale of goods	<u>620,732</u>	<u>672,729</u>

(a) Revenue recognition in relation to contract liabilities

As at 31 December 2024 and 2023, contract liabilities included receipts in advance and deferred revenue amounting to HK\$162,555,000 (2023: HK\$149,002,000) and HK\$2,268,000 (2023: HK\$2,131,000) respectively.

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

	2024	2023
	HK\$'000	HK\$'000
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	<u>151,133</u>	<u>168,043</u>

There is no revenue recognised during the current year (2023: Same) related to performance obligations that were satisfied in prior year.

(b) Unsatisfied long-term contracts

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

5 OTHER INCOME, NET

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Insurance claim	193	–
Service income	483	2,221
Exchange gains/(losses)	191	(425)
Losses on disposal of property, plant and equipment	(192)	(382)
Others	2,098	2,192
	<u>2,773</u>	<u>3,606</u>
Total other income	<u>2,773</u>	<u>3,606</u>

6 EXPENSES BY NATURE

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Cost of inventories sold	198,263	218,396
Lease rental in respect of retail outlets (<i>Note (a)</i>)		
– Contingent rental	117	474
Lease rental in respect of storage spaces and office premises (<i>Note (a)</i>)	10,019	12,253
Advertising and promotional expenditure	13,832	15,612
Depreciation of property, plant and equipment	33,943	36,666
Depreciation of right-of-use assets	95,770	102,552
Amortisation of intangible assets	704	662
Communication and utilities	28,732	32,115
Employee benefit expenses (including directors' emoluments)	189,661	212,192
Provision for obsolete inventories	169	606
Impairment loss on financial assets	141	3,409
Provision for impairment on right-of-use assets	195	3,452
Provision for impairment on property, plant and equipment	–	364
Write-off of property, plant and equipment	–	3,120
Legal and professional fees	3,827	4,459
Auditors' remuneration		
– Audit services	2,300	2,300
Tools, repair and maintenance expenses	9,836	12,643
Transportation and distribution expenses	26,548	30,859
Others	17,772	20,579
	<u>631,829</u>	<u>712,713</u>
Total cost of sales, selling and distribution costs, administrative and operating expenses and impairment loss on financial assets	<u>631,829</u>	<u>712,713</u>

Note:

- (a) These expenses included short-term leases expenses of HK\$284,000 (2023: HK\$910,000), variable leases payment expenses of HK\$546,000 (2023: HK\$2,257,000), and other rental-related expenses of HK\$9,306,000 (2023: HK\$9,560,000) and are charged in 'administrative and operating expenses' for the year ended 31 December 2024.

7 FINANCE COSTS, NET

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Finance income:		
– Interest income	<u>148</u>	<u>121</u>
Finance costs:		
– Interest expenses on employee benefit obligations	(144)	(126)
– Interest expenses on borrowings	(2,433)	(2,690)
– Interest and finance charges for lease liabilities	<u>(7,531)</u>	<u>(5,864)</u>
	<u>(10,108)</u>	<u>(8,680)</u>
Finance costs, net	<u>(9,960)</u>	<u>(8,559)</u>

8 INCOME TAX CREDIT

Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2 million of estimated assessable profits of this subsidiary is taxed at 8.25% and the remaining estimated assessable profits are taxed at 16.5% (2023: Same).

PRC Corporate Income Tax

Group entities incorporated in the PRC are subject to Corporate Income Tax (“CIT”) in accordance with the Law of the PRC on Corporate Income Tax (the “CIT Law”). Under the CIT Law, the income tax rate applicable to these subsidiaries is 25% (2023: 25%).

The amount of income tax credit represents:

	Year ended 31 December	
	2024	2023
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax for the year	86	71
PRC CIT for the year	521	563
Under/(over)-provision in prior years	2	(16)
Deferred income tax:		
Derecognition of unutilised tax loss	125	8
Other temporary differences	<u>(3,208)</u>	<u>(2,947)</u>
Income tax credit	<u>(2,474)</u>	<u>(2,321)</u>

9 LOSS PER SHARE

	Year ended 31 December	
	2024	2023
Loss attributable to owners of the Company (<i>HK\$'000</i>)	(13,693)	(34,621)
Weighted average number of ordinary shares for the calculation of basic loss per share (thousands)	655,944	655,944
Loss per share for loss attributable to owners of the Company		
– Basic loss per share (<i>HK cents</i>)	<u>(2.09)</u>	<u>(5.28)</u>
– Diluted loss per share (<i>HK cents</i>)	<u>(2.09)</u>	<u>(5.28)</u>

(a) Basic

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

(b) Diluted

Diluted loss 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 per share for the years ended 31 December 2024 and 2023 equal basic loss per share as there were no potentially dilutive ordinary shares as at both years end.

10 DIVIDENDS

	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends paid during the year		
2022 final and special dividends totalling HK0.62 cent per ordinary share	<u>–</u>	<u>4,067</u>

The Board has resolved not to propose or declare any final dividend for the year ended 31 December 2024 (2023: Nil).

11 TRADE RECEIVABLES

	As at 31 December	
	2024	2023
	HK\$'000	HK\$'000
Trade receivables from third parties	53,530	56,776
Less: Provision for impairment of trade receivables	(481)	(516)
Trade receivables, net	53,049	56,260

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (2023: 30 to 105 days). As at 31 December 2024 and 2023, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2024	2023
	HK\$'000	HK\$'000
Less than 30 days	21,332	22,679
31-90 days	21,808	25,934
Over 90 days	10,390	8,163
	53,530	56,776

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

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

	2024	2023
	HK\$'000	HK\$'000
At 1 January	516	898
Provision for/(reversal of) impairment of trade receivables	141	(342)
Receivables written off during the year as uncollectible	(176)	(40)
At 31 December	481	516

The Group does not hold any collateral as security.

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

	As at 31 December	
	2024	2023
	HK\$'000	HK\$'000
HK\$	51,776	54,711
RMB	1,273	1,549
	53,049	56,260

12 SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares <i>HK\$'000</i>
Authorised:		
At 1 January 2023, 31 December 2023 and 31 December 2024	1,000,000,000	10,000

	Number of shares	Nominal value of ordinary shares <i>HK\$'000</i>
Issued and fully paid:		
At 1 January 2023, 31 December 2023 and 31 December 2024	655,944,000	6,559

13 TRADE PAYABLES

	As at 31 December 2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Trade payables	30,140	37,865

As at 31 December 2024 and 2023, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December 2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
0 to 30 days	14,480	14,185
31 to 60 days	7,929	14,552
61 to 90 days	4,862	5,513
Over 90 days	2,869	3,615
	30,140	37,865

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

	As at 31 December 2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
HK\$	12,754	20,315
RMB	17,386	17,550
	30,140	37,865

14 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals for employee benefit expenses	10,433	15,466
Accruals for marketing and promotional expenses	5,671	4,864
Refund liabilities for sales rebate	1,997	1,649
Rental and related expenses payable	1,713	2,461
Office and utilities expenses payable	4,010	3,836
Deferred revenue	2,268	2,131
Consideration payable for property, plant and equipment acquired	7,317	6,714
Accruals for transportation and delivery charges	1,963	2,840
Accruals for audit fee	1,800	1,800
Other accruals and other payables	15,105	17,513
	<u>52,277</u>	<u>59,274</u>

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

	As at 31 December	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	40,589	47,570
RMB	11,688	11,704
	<u>52,277</u>	<u>59,274</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the review year, the combination of macroeconomic headwinds and lacklustre equity and property markets that have yet to bottom out weighed on consumer confidence. Despite the resultant complex and uncertain business conditions in Hong Kong and Mainland China, the Group demonstrated resilience and maintained its market leadership position in 2024.

During the year ended 31 December 2024, total revenue decline 7.7% to HK\$620.7 million (2023: HK\$672.7 million). While gross profit slid by 6.2% to HK\$369.0 million (2023: HK\$393.5 million), the Group successfully improved the gross profit margin to 59.4% (2023: 58.5%), representing 0.9 percentage point year on year growth. This reflects effective efforts in controlling costs and boosting manufacturing efficiency. Through strategic cost optimization measures, the Group also significantly reduced selling, administrative and other corporate expenses during the year, resulting in a narrower loss attributable to owners of HK\$13.7 million in 2024 (2023: loss of HK\$34.6 million). The Group maintain its robust financial position and healthy operating cash flows. As at 31 December 2024, it held sufficient cash and cash equivalents as well as unutilised banking facilities, amounting to approximately HK\$110.2 million and HK\$82.3 million, respectively (31 December 2023: HK\$88.5 million and HK\$44.7 million, respectively).

It is worth noting that receipts in advance (which represent sales of prepaid coupons and credits, the revenue of which will be recognized in future upon redemption by customers) have increased by 9.1% from HK\$149.0 million as at 31 December 2023 to HK\$162.6 million as at 31 December 2024.

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

Continuing to be the principal contributor to the Group's top line, the Hong Kong retail business generated HK\$467.3 million in revenue during the review year (2023: HK\$503.8 million), down 7.2% year on year, and accounted for 75.3% of the Group's total revenue. The metrics are indicative of the challenging operating environment in Hong Kong, as the trend of residents travelling northbound and overseas has continued, compounded by more cautious spending by tourists due to the strong Hong Kong dollar. Such developments have led to a decline in the value of total retail sales in Hong Kong in 2024 – down 7.3% in value and 9% in volume year on year¹, according to the HKSAR Government Census and Statistics Department. As for the Group, it was significantly impacted in terms of store traffic and same-store sales, particularly during weekends and long holidays when Hong Kong residents tended to travel to neighbouring Mainland Chinese cities or overseas for leisure and spending. Nevertheless, the segment achieved notable turnaround to record a profit of HK\$21.6 million (2023: loss of HK\$5.3 million), mainly due to the improvement in gross profit margin and reduction in administrative expenses, despite ongoing pressure from labour and material-related costs.

Given the difficult business environment, the Group continued to take a prudent approach towards opening new stores while strategically optimising its retail network. As at 31 December 2024, the Group had a total of 107 self-operating shops in Hong Kong, comprising 99 HFT shops and 8 HFT Life café concept stores, thus retaining its position as the largest herbal retailer in Hong Kong based on retail network size.

¹ Source: Hong Kong SAR Government – Census and Statistics Department Press Release

To drive traffic to its retail network as well as raise brand awareness, the Group initiated various proactive marketing campaigns. This was complemented by the ongoing refinement of its product portfolio to expand revenue streams. To better reach the tourist and festive product market segments in particular, the Group promoted its offerings through different social media channels, including Xiaohongshu (小紅書). It also introduced several festive products during the Lunar New Year period to attract tourists and stimulate sales. With regard to the Joyous product series, the Group was able to generate strong sales momentum by promoting stewed pork trotter and ginger gift cards for celebrating childbirths. Additionally, given the city's growing panda economy, the Group worked closely with Ocean Park Hong Kong to celebrate the first month and 100-day birthdays of the panda twins, subsequently launching a series of panda-themed stewed pork trotter and ginger gift cards in November. The Group has also continued to nurture partnerships with different banks and collaborated with various telecommunication providers in Hong Kong to introduce exclusive offers to their customers. Still other initiatives taken by the Group include working with the baking solutions provider and distributor, Callista Foods Limited, to further expand its portfolio in the bakery sector by providing more product options. Similarly, the Group has partnered with the healthy diet brand, Nutribite, to provide nutritious meal offerings at its retail shops, personally reaching out to consumers to address their evolving dietary preferences.

A key pillar of the Hong Kong retail business continues to be the JIKA CLUB (自家 CLUB). To promote the uptake of its membership card, the Group has focused on providing exclusive services and highly customised membership experiences to reward members. As for the JIKA CLUB (自家 CLUB) membership programme itself, the Group has placed tremendous effort into rewarding its valued customers through exclusive discount offers and devising loyalty programmes that enrich the customer experience and foster stronger engagement. This has included collaborating with the cartoon brand mofusand in launching limited edition gifts for members. As at 31 December 2024, JIKA CLUB had amassed over 1,400,000 members, or a year-on-year increase of approximately 100,000 memberships. The Group's initiatives have also resulted in more than 80% of coupons being redeemed by members via e-format.

To enhance the Group's visibility and better engage with Hong Kong consumers and the broader market directly, it has participated in various exhibitions during the review year. This includes the Hong Kong Brands and Products Expo, Wedding and Baby Expo, and other large-scale gatherings. By erecting corporate booths at these events, the Group has been able to showcase its diverse products and services, fostering stronger connections with existing customers while reaching out to potential new customers.

Separately, amid the challenging business conditions, the Group has demonstrated considerable business acumen and the ability to be a skilled negotiator, successfully securing rental concessions and more favourable terms for the majority of its lease renewals as part of its cost optimisation initiative and optimise retail network to increase profitability.

Wholesale

The wholesale operation experienced a decline in revenue, receding by 9.2% to HK\$153.4 million (2023: HK\$168.9 million), and accounting for 24.7% of the Group's total revenue. The decline was largely attributable to the waning confidence of consumers in the Hong Kong and Mainland China markets. Despite the lower revenue, the segment profit increased by 13.4% to HK\$19.8 million (2023: HK\$17.5 million), as the Group took shrewd measures to consolidate resources and effectively leveraged its modern production facilities in Mainland China to increase manufacturing efficiency, leading to an increase in gross profit margin and a significant reduction in selling and administrative expenses.

Hong Kong

Regarding the Hong Kong wholesale operation specifically, revenue declined by 7.1% to HK\$134.3 million (2023: HK\$144.5 million), aligning with the overall decline in retail sales in Hong Kong. During the review year, the operation focused on bolstering partnerships, expanding product offerings and adapting to evolving consumer preferences to drive growth and enhance its market presence. It collaborated with key accounts to enhance product penetration. The wholesale operation leveraged ties that included PARKnSHOP to launch new products, such as wolfberry soy sauce (杞子豉油). It also partnered with Wellcome to promote its e-coupons and establish new sales channels.

On the product front, the Hong Kong wholesale business continued to introduce beverages to address the growing demand for healthier drink options. This included two new tea products, namely the sugar-free Oolong Tea (香檳烏龍茶) and Rye and Brown Rice Drink (黑麥玄米茶). In the Group's ongoing commitment to innovation and brand rejuvenation, selected health drinks were revitalised aesthetically through collaborations with popular cartoon character – B.duck, enhancing the aesthetic appeal. Additionally, the new packaging designs of the flagship herbal tea product helped to maintain their visual attractiveness as well as inject vitality into the brand. Aside from beverages, the operation introduced food items sourced from the Mainland China and Southeast Asia markets to provide more options and cater for the needs of a wider range of customers.

Mainland China

The Group's wholesale operation in Mainland China was directly affected by the slowing local economy, tepid consumer sentiment, weak Renminbi and increasingly fierce market competition. Revenue from the segment was down 21.7% to HK\$19.1 million (2023: HK\$24.4 million) during the review year. To overcome the challenging conditions, the Group sought to increase the availability of products by leveraging close partnerships with key accounts and major distributor. As a result, the Group's long shelf-life and fresh beverage products were available at over 17,000 convenience stores in 13 cities, including Guangzhou, Dongguan, Shenzhen and Shanghai, as well as various supermarkets and department stores by the end of the review year. Also mindful of the health consciousness of local consumers, the Group introduced sugar-free products to reach this segment as well as to diversify the wholesale product portfolio. To better reach customers from all walks of life, the Group has continued to direct resources to promote sales on such popular online platforms as JD.com (京東), Taobao (淘寶), Tmall (天貓), Meituan (美团), Douyin (抖音) and Xiaohongshu (小紅書). In addition, the Group has continued to participate in exhibitions to promote brand exposure and create opportunities for increasing the market presence.

Other Markets

The performance of the Group's wholesale business in other markets was impacted by weak global economic growth, stricter import policies and tariff increases. Despite these developments, the Group has been able to protect its share of overseas wholesale markets by maintaining close communication with key accounts.

PROSPECTS

Looking ahead to 2025, the business environment will continue to be fraught with challenges, resulting from changing consumption patterns among visitors, the decline in the overall purchasing power of consumers, the northbound spending trend and the sustained strength of the Hong Kong dollar. These developments will not only weigh on the Hong Kong economy, but also further impact an already lacklustre retail sector. The situation across the border is expected to be similar, as Mainland China will continue to grapple with economic uncertainties brought by heightened geopolitical tensions and cautious consumer sentiment. Businesses will therefore need to navigate a complex landscape marked by intense competition and shifting demand.

For the Group, it will maintain a cautious approach, prioritising financial prudence that is characterised by cost optimisation. Defensive measures will therefore include negotiating with landlords for rental reductions, better controlling logistic, labour and merchandising costs, and further utilising the production plant in Mainland China to increase efficiency. With the Group's adaptability and commitment to market innovation, it will actively pursue new sources of revenue and enhance its market presence to return to a growth trajectory. Consequently, the Group will look to diversify its product portfolio, further expand sales channels and seek cross-brand collaborations. Through such efforts, the Group is confident in its ability to perform in a stable manner in 2025 and achieve a subsequent turnaround.

Hong Kong Retail

Given the relatively flat retail market, the Group will continue to closely monitor its store network to ensure that it operates effectively. Additionally, it will seek to diversify product offerings to align with the dynamic retail landscape. This will include enhancing the market reach of gift cards for tailor-made and generic stewed pork trotter and ginger to boost sales of the ginger product category. The Group will also launch new products for the festive seasons, while at the same time further developing the traditional Poon Choi dish. It is the Group's intention to position its high-quality and additives-free Poon Choi as a delicious food item that families can enjoy all year round for family gathering, not just during traditional festivals.

As the Group plans to enrich its staple food offerings on top of its established non-staple offerings as well, it will be further promoting nutritious diets for women during postpartum confinement or pregnancy (月子餐) through a wider variety of meal options. Moreover, an upgraded delivery service for these meals will be launched in the first quarter of 2025 to complement the development of this product category. Also, given the positive feedback from customers regarding its healthy meals in collaboration with Nutribite, the Group will further examine opportunities for introducing other meal options catering for the needs of different group of people.

Still other business efforts that the Group will look to build on include diversifying the products offered at its HFT Life café. With regard to JIKA CLUB, the Group will seek to increase membership, encourage retention and stimulate spending by members. This will, in part, involve partnering with cartoon character licensor to launch exciting products to serve as member privileges and increase brand loyalty. On the digitalisation front, the Group will launch new POS and electronic member management systems in first half of 2025 to increase logistical efficiency and boost spending across different sales platform in the Group. Going forward, the Group will continue to maintain its retail network while work closely with landlords to negotiate for more favourable lease terms.

Wholesale

Hong Kong

To tackle the challenging wholesale market in Hong Kong, the Group will continue to pursue cross-brand partnerships for product development and marketing initiatives. Such efforts will be aimed at supporting the introduction of healthier beverage and food options. Similarly, the Group will collaborate with different brands to launch functional drinks to further capture the needs of health market.

Mainland China

In Mainland China, which is a market that is expected to remain challenging, characterised by heightened geopolitical tension, weak consumer sentiment, and intense competition, the Group plans to participate in more exhibitions to enhance brand visibility. It will also focus on launching additional sugar-free products and soups to diversify revenue streams and cater for health-conscious consumers.

Other Markets

As each market that the Group operates in possesses its own set of unique challenges, it recognises that maintaining close communication with distributors is paramount. The Group will therefore strengthen such interactions to keep abreast of market developments, explore fresh opportunities in the US, UK, and Asian market, to bolster its brand presence.

CONCLUSION

Despite the economic headwinds, the Group remains committed to its current course of action, which includes capitalising on the growing demand for healthy products by leveraging its thorough understanding of consumer needs, capacity to tap new markets and ability to meet high quality standards. By remaining agile and customer-centric, the Group trusts that it is well-positioned to navigate future challenges and drive sustainable growth.

FINANCIAL REVIEW

Revenue

In 2024, the number of Hong Kong residents traveling abroad increased significantly compared to the last year. This, coupled with shifting consumption patterns among both visitors and local residents, has had an adverse impact on our business performance.

For the year ended 31 December 2024, the Group recorded a revenue of HK\$620.7 million, representing a decrease of 7.7% from HK\$672.7 million in 2023. Revenue from Hong Kong retail operation decreased to HK\$467.3 million, representing a decrease of 7.2% from HK\$503.8 million in 2023. Revenue from wholesale business decreased to HK\$153.4 million, representing a decrease of 9.2% from HK\$168.9 million in 2023.

Cost of Sales

For the year ended 31 December 2024, the Group incurred a cost of sales totaling HK\$251.7 million, representing a decrease of 9.9% from HK\$279.2 million in 2023. As a percentage of revenue, cost of sales represented 40.6% and 41.5% in 2024 and 2023 respectively.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2024, the Group achieved a gross profit of HK\$369.0 million, indicating a decrease of 6.2% from HK\$393.5 million in 2023. The Group's gross profit margin experienced an increase of 0.9 percentage point, settling at 59.4% compared to 58.5% in 2023. This improvement in gross profit margin was achieved through the consolidation of our manufacturing capacity in both Hong Kong and Mainland China and the optimization of sales mix.

Staff Costs

For the year ended 31 December 2024, the Group's staff costs amounted to HK\$189.7 million, representing a decrease of 10.6% from HK\$212.2 million in 2023. The staff costs-to-revenue ratio is 30.6%, which is lower than the 31.5% recorded in 2023.

Rental Expenses

For the year ended 31 December 2024, rental expenses in relation to its retail shops in Hong Kong (being the aggregate of lease rental in respect of retail outlets, depreciation of right-of-use assets for shop properties and the interest expense arisen from lease liabilities) amounted to HK\$98.7 million, representing a decrease of 5.7% from HK\$104.7 million in 2023 mainly due to the closing of certain underperforming shops. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 21.1% as compared to 20.8% in 2023.

Depreciation

For the year ended 31 December 2024, depreciation of property, plant and equipment of the Group amounted to HK\$33.9 million, representing a decrease of 7.4% from HK\$36.7 million in 2023. The decline can be attributed primarily to the depreciation of plant and machinery, and equipment. This accounted for 5.5% in percentage to revenue in both 2024 and 2023.

Loss Attributable to Owners of the Company

Loss attributable to owners of the Company for the year ended 31 December 2024 was HK\$13.7 million, as compared to HK\$34.6 million in 2023.

Loss per share for loss attributable to owners of the Company for the year ended 31 December 2024 amounted to HK2.09 cents, as compared to HK5.28 cents in 2023.

Capital Expenditure

During the year ended 31 December 2024, capital expenditure of the Group amounted to HK\$16.6 million (2023: HK\$13.1 million) primarily for revamping of existing retail shops, acquiring production facilities and equipment in Mainland China plant and acquiring equipment in retail shops.

Liquidity and Financial Resources Review

As at 31 December 2024, the Group had bank deposits and cash balance amounted to HK\$110.2 million (31 December 2023: HK\$88.5 million).

As at 31 December 2024, the gearing ratio of the Group was 0.66 (31 December 2023: 0.69), which was calculated based on total debts including bank borrowings and lease liabilities divided by equity attributable to owners of the Company.

As at 31 December 2024, the Group had total banking facilities of HK\$122.5 million (31 December 2023: HK\$83.1 million) of which HK\$40.2 million (31 December 2023: HK\$38.4 million) had been utilised.

As at 31 December 2024, the Group's current liabilities exceeded its current assets by HK\$128.7 million (31 December 2023: HK\$141.0 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons and credits to customers in Hong Kong of HK\$162.6 million (31 December 2023: HK\$149.0 million) which will reduce gradually over the time of each redemption by customers and are not expected to be settled by cash under normal business circumstances. Excluding the aforementioned receipts in advance, the Group would have net current assets of HK\$33.9 million (31 December 2023: HK\$8.0 million) and current ratio of 1.17 (31 December 2023: 1.04).

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

Foreign Currency Risk

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

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments during the financial year ended 31 December 2024.

Contingent Liabilities

Taclon Industries Limited, a wholly-owned subsidiary of the Company, has several pending litigations and claims with its former employees which the Directors consider an outflow of resources is not probable.

Human Resources

As at 31 December 2024, the Group employed approximately 810 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on years of service and performance appraisal.

During the year ended 31 December 2024, 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 does not recommend the payment of a final dividend for the year ended 31 December 2024 (2023: Nil).

Closure of Register of Members

For determining the entitlement to attend and vote at the annual general meeting (“AGM”) of the Company to be held on Tuesday, 3 June 2025, the register of members of the Company will be closed from Thursday, 29 May 2025 to Tuesday, 3 June 2025, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 28 May 2025.

Corporate Governance Code

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Corporate Governance Code in Appendix C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the year ended 31 December 2024.

Model Code for Securities Transactions

The Company has adopted a code of conduct (the “**Code of Conduct**”) based on the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 of the Listing Rules (the “**Model Code**”). For the year ended 31 December 2024, all of the Directors confirmed that they have complied with the required standards set out in the Code of Conduct.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December 2024.

Audit Committee

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

The Group’s annual results for the year ended 31 December 2024 have been reviewed by the Audit Committee.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group’s consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2024 as set out in the preliminary announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Publication of Annual Report

The annual report for the year ended 31 December 2024 containing all relevant information required by the Listing Rules will be published on the designated website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.hungfooktongholdings.com) in due course.

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

Hong Kong, 27 March 2025

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 Prof. Sin Yat Ming, Mr. Andrew Look and Mr. Yeung Chu Kwong as independent non-executive Directors.