



**HUNG FOOK TONG**

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

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

**Stock Code: 1446**

HUNG FOOK TONG

HUNG FOOK TONG

HUNG FOOK TONG



**GLOBAL OFFERING**

HUNG FOOK TONG

HUNG FOOK TONG

HUNG FOOK TONG

HUNG FOOK TONG

HUNG FOOK TONG

HUNG FOOK TONG

*Sole Sponsor and Sole Global Coordinator*

**CROSBY**  
**Crosby Securities Limited**

*Joint Bookrunners and Joint Lead Managers*

**CROSBY**  
Crosby Securities Limited



Shenyin Wanguo Capital (H.K.) Limited

## IMPORTANT

**IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.**



**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)*

## GLOBAL OFFERING

Number of Offer Shares under the : 158,000,000 Shares (subject to the Over-allotment  
Global Offering Option)  
Number of Hong Kong Offer Shares : 15,800,000 Shares (subject to adjustment and  
including 1,580,000 Employee Reserved Shares)  
Number of International Offer Shares : 142,200,000 Shares (subject to adjustment and the  
Over-allotment Option)  
Maximum Offer Price : HK\$1.30 per Offer Share (payable in full on  
application in Hong Kong dollars, subject to  
refund, plus brokerage of 1%, SFC transaction  
levy of 0.003% and Stock Exchange trading fee  
of 0.005%)  
Nominal Value : HK\$0.01 per Share  
Stock Code : 1446

*Sole Sponsor and Sole Global Coordinator*

# CROSBY

## Crosby Securities Limited

*Joint Bookrunners and Joint Lead Managers*

# CROSBY

Crosby Securities Limited



Shenyin Wanguo Capital (H.K.) Limited

*Co-lead Managers*



# DBS



## Halcyon Securities Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph "Documents Delivered to the Registrar of Companies" in "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator, for itself and on behalf of the Underwriters, and our Company on the Price Determination Date, which is expected to be on or around Friday, 27 June 2014 and, in any event, not later than 12:00 noon on Wednesday, 2 July 2014. The Offer Price will be not more than HK\$1.30 and is currently expected to be not less than HK\$1.00 unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.30 for each Share together with a brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is lower than the maximum Offer Price of HK\$1.30.

The Sole Global Coordinator, for itself and on behalf of the Underwriters may, where considered appropriate, based on the level of market interest expressed by prospective institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$1.00 to HK\$1.30 per Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares in the Global Offering and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on our website at [www.hungfooktong.com](http://www.hungfooktong.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk), as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator, for itself and on behalf of the Underwriters, and our Company, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Further details are set out in the sections "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares" in this prospectus.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including the risk factors set out in the section "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares, are subject to termination with immediate effect by notice (orally or in writing) from the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section "Underwriting — Underwriting Arrangement and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

23 June 2014

## EXPECTED TIMETABLE

We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website at [www.hungfooktong.com](http://www.hungfooktong.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) if there is any change in the following expected timetable of the Hong Kong Public Offering:

2014<sup>(1)</sup>

Latest time for lodging **PINK** Application Forms  
at our Company's head office at 12/F.,  
ADP Pentagon Centre, 98 Texaco Road,  
Tsuen Wan, New Territories, Hong Kong . . . . . 12:00 noon on Wednesday, 25 June

Latest time to complete electronic applications under the  
**White Form eIPO** service through the  
designated website [www.eipo.com.hk](http://www.eipo.com.hk)<sup>(2)</sup> . . . . . 11:30 a.m. on Thursday, 26 June

Application lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Thursday, 26 June

Latest time to complete payment of **White Form eIPO**  
applications by effecting internet banking transfer(s)  
or PPS payment transfer(s) . . . . . 12:00 noon on Thursday, 26 June

Latest time to give **electronic application**  
**instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Thursday, 26 June

Latest time to lodge **WHITE** and  
**YELLOW** Application Forms . . . . . 12:00 noon on Thursday, 26 June

Application lists close . . . . . 12:00 noon on Thursday, 26 June

Expected Price Determination Date<sup>(5)</sup> . . . . . Friday, 27 June

Announcement of the final Offer Price, the level of indication  
of interest in the International Offering, the level of  
applications in the Hong Kong Public Offering and  
the Employee Preferential Offering and the basis of  
allocation of the Hong Kong Offer Shares and the  
Employee Reserved Shares to be published in the  
South China Morning Post (in English) and the  
Hong Kong Economic Times (in Chinese) and on  
our website at [www.hungfooktong.com](http://www.hungfooktong.com) and  
the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk)  
on or before . . . . . Thursday, 3 July

Announcement of results of allocations under the  
Hong Kong Public Offering and the Employee Preferential  
Offering (with successful applicants' identification document  
numbers, where appropriate) to be available through  
a variety of channels including our website at  
[www.hungfooktong.com](http://www.hungfooktong.com) and the Stock Exchange's  
website at [www.hkex.com.hk](http://www.hkex.com.hk) (for further details,  
please see the section "How to Apply for Hong Kong Offer Shares  
and Employee Reserved Shares — 11. Publication  
of Results" in this prospectus) from . . . . . Thursday, 3 July

## EXPECTED TIMETABLE

2014<sup>(1)</sup>

Results of allocations under the Hong Kong Public Offering and the Employee Preferential Offering will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from . . . . . 8:00 a.m. on Thursday, 3 July

Despatch/Collection of White Form e-Refund payment instructions/ refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering or the Employee Preferential Offering on or before<sup>(6 to 8)</sup> . . . . . Thursday, 3 July

Despatch/Collection of Share certificates on or before. . . . . Thursday, 3 July

Dealings in the Shares on the Stock Exchange expected to commence on . . . . . 9:30 a.m. on Friday, 4 July

### Notes:

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section “Structure of the Global Offering” in this prospectus.
2. You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “**black**” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 26 June 2014, the application lists will not open on that day. For further details, please see the section “How to Apply for Hong Kong Offer Shares and Employee Reserved Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see the section “How to Apply for Hong Kong Offer Shares and Employee Reserved Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on or around Friday, 27 June 2014. If, for any reason, the Offer Price is not agreed by 12:00 noon on Wednesday, 2 July 2014 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
6. Share certificates for the Offer Shares are expected to be issued on or before Thursday, 3 July 2014 but will only become valid certificates of title at 8:00 a.m. on Friday, 4 July 2014 provided that (a) the Global Offering has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.
7. Applicants for 1,000,000 Hong Kong Offer Shares or more on **WHITE** Application Forms and/or 50,000 or more Employee Reserved Shares on **PINK** Application Form and have provided all information required by their Application Forms may collect refund cheques (where relevant) and/or Share certificates (where relevant) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 3 July 2014 or such other date as notified by us in the newspapers.

## EXPECTED TIMETABLE

Individuals who opt for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. Applicants for 1,000,000 Hong Kong Offer Shares or more on **YELLOW** Application Forms and have provided all required information may collect their refund cheques, if any, in person but may not elect to collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank account may have refund monies (if any) dispatched to their application payment bank account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should see the section "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

8. Refund cheques/e-Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$1.30 per Offer Share.

For details of the structure of the Global Offering, including conditions of the Global Offering, applicants should see the section "Structure of the Global Offering" in this prospectus.

# CONTENTS

## IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering.*

	Page
<b>EXPECTED TIMETABLE</b> .....	i
<b>CONTENTS</b> .....	iv
<b>SUMMARY</b> .....	1
<b>DEFINITIONS</b> .....	12
<b>GLOSSARY OF TECHNICAL TERMS</b> .....	25
<b>FORWARD-LOOKING STATEMENTS</b> .....	26
<b>RISK FACTORS</b> .....	27
<b>INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING</b> .....	49
<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b> .....	52
<b>CORPORATE INFORMATION</b> .....	56
<b>INDUSTRY OVERVIEW</b> .....	58
<b>APPLICABLE LAWS AND REGULATIONS</b> .....	70
<b>HISTORY AND DEVELOPMENT</b> .....	92
<b>BUSINESS</b> .....	106

# CONTENTS

	<i>Page</i>
<b>RELATIONSHIP WITH CONTROLLING SHAREHOLDERS .....</b>	195
<b>DIRECTORS AND SENIOR MANAGEMENT .....</b>	204
<b>SUBSTANTIAL SHAREHOLDERS .....</b>	214
<b>SHARE CAPITAL .....</b>	216
<b>FINANCIAL INFORMATION .....</b>	219
<b>FUTURE PLANS AND USE OF PROCEEDS .....</b>	278
<b>UNDERWRITING .....</b>	280
<b>STRUCTURE OF THE GLOBAL OFFERING .....</b>	291
<b>HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES .....</b>	300
<b>APPENDIX IA — ACCOUNTANT’S REPORT OF THE GROUP .....</b>	IA-1
<b>APPENDIX IB — ACCOUNTANT’S REPORT OF TACLON .....</b>	IB-1
<b>APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION .....</b>	II-1
<b>APPENDIX III — PROPERTY VALUATION .....</b>	III-1
<b>APPENDIX IV — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW .....</b>	IV-1
<b>APPENDIX V — STATUTORY AND GENERAL INFORMATION .....</b>	V-1
<b>APPENDIX VI — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION .....</b>	VI-1

## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We are principally engaged in the production and sales of Chinese herbal drinks and other drink products, Chinese-style soups and tortoise herbal jelly under our reputable and award-winning “鴻福堂 (Hung Fook Tong)” brand. We were the top retailer of Chinese herbal drinks, soups and tortoise herbal jelly in Hong Kong in 2013, with a market share of 34.4%, in terms of revenue and in terms of the number of retail shops, according to the Ipsos Report. Since the commencement of our operation in 1986, we have transformed from a traditional Chinese herbal tea shop to a modern wellness concept food and beverage enterprise, and have diversified our products to cover a variety of herbal and non-herbal products which we market with our wellness concept.

We develop our “鴻福堂 (Hung Fook Tong)” brand by associating it with our core values of building on traditional Chinese herbal culture, delivering benefits of healthy diet and natural ingredients, focusing on our stringent quality control and safety assurance, and providing convenient-to-consume products to our customers. We adhere firmly to our belief in the benefits of a healthy diet and natural ingredients, as reflected in our motto of “Naturally Made, Wholeheartedly Good (真心製造，自然流露)” and our “No additive (無添加)” approach to our production process. We strive to produce healthy, nutritious and delicious products with quality natural ingredients and without addition of any artificial preservatives, artificial colouring or MSG, and we make effort in the selection of raw materials from suppliers and pay attention as to whether any artificial additives are added to such raw materials.

In recognition of our consistent efforts, we have received numerous awards, including the “Superbrands 2013 (Hong Kong’s Choice)” by Superbrands, “Top Ten Prestigious Corporate Brands Award 2013 (十大香港卓越企業品牌(評審團)2013)” by MingPao & MSc Marketing CUHK, and “Trusted Brand 2012 & 2013 — Platinum Award (Chinese Soup/Herbal Tea Shop)” by the Reader’s Digest.

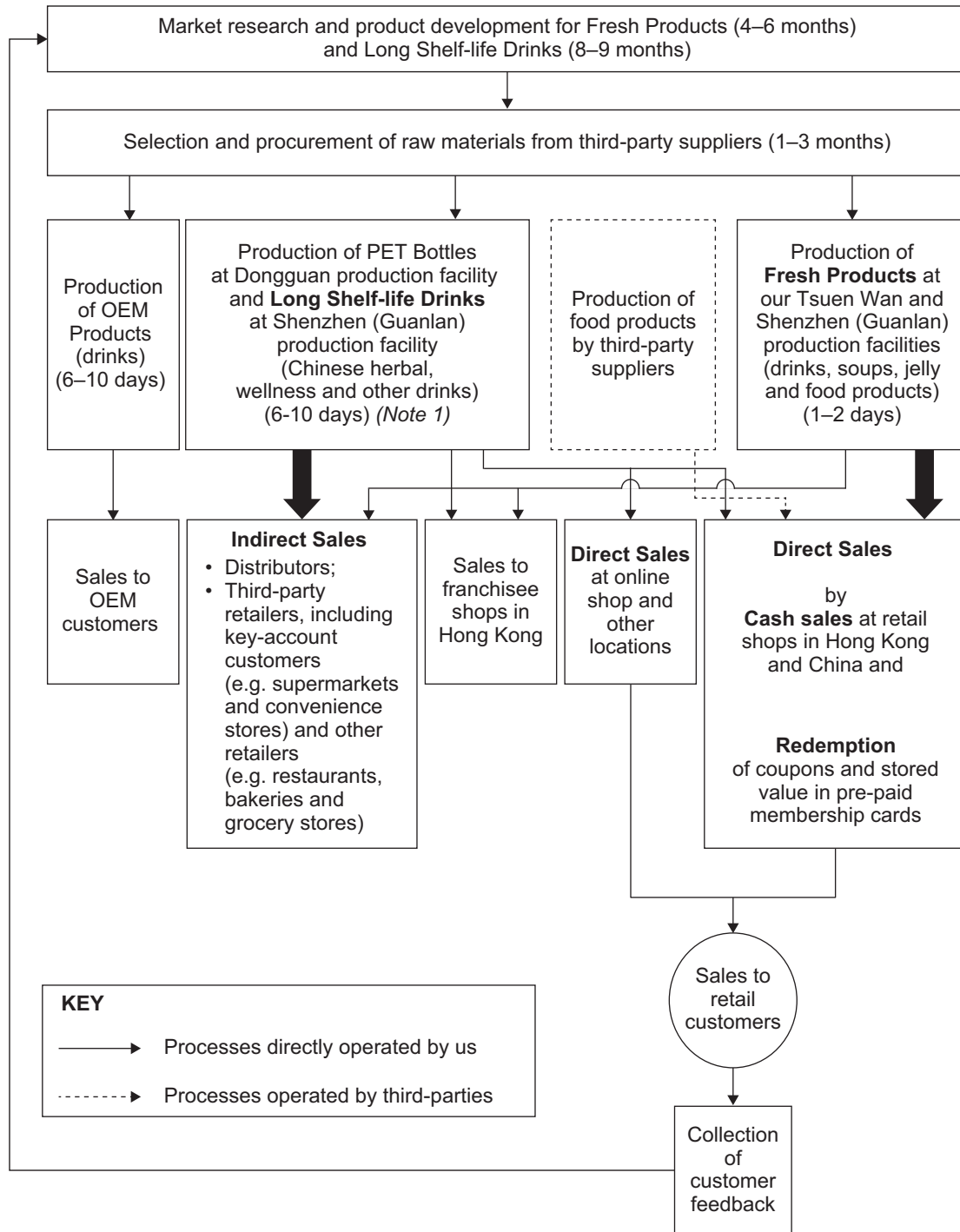
### OUR BUSINESS MODEL

We produce our products at our production facilities located in Hong Kong and China, and market them through two principal channels: (i) **Direct Sales**: direct cash sales and sales through coupons and pre-paid membership cards of mostly Fresh Products and some selected Long Shelf-life Drinks at our retail shops, and some direct cash sales at other locations, in Hong Kong and China, and (ii) **Indirect Sales**: sales of mainly Long Shelf-life Drinks and some selected Fresh Products, principally to distributors and third-party retailers in Hong Kong, China and overseas. We believe our two principal sales channels complement each other, and both help us increase the market awareness of our brand and enable us to reach out to a diverse customer base.



## SUMMARY

The following diagram illustrates key stages of the product development, procurement, production, marketing, distribution and sales of our Long Shelf-life Drinks, Fresh Products and OEM Products and the approximate time required for such major processes.



Note:

- (1) The time required for production process refers to the entire process from receipt of production order to delivery, and is longer than the time required for the actual production.

## SUMMARY

### **Our Direct Sales and Indirect Sales Networks and Customers**

Our Direct Sales, which are primarily for sales of our Fresh Products, comprised (i) cash sales at our retail shops network with 97 and 25 self-operated retail shops in Hong Kong and China, respectively, as at the Latest Practicable Date; (ii) sales through redemption of coupons and stored value in pre-paid membership cards; and (iii) cash sales at locations other than our retail shops, such as exhibitions, sales booths and our online store (for sales in Hong Kong only). For sales through redemption of coupons and stored value in pre-paid membership cards, we receive payment in advance from our customers, who can redeem the coupons or stored value in pre-paid membership cards purchased in Hong Kong and Guangdong Province for our products at our retail shops in Hong Kong and Guangdong Province, respectively. Sales through redemption of coupons and stored value in pre-paid membership cards contributed to 33.0%, 34.9% and 33.1% of our revenue in 2011, 2012 and 2013, respectively. In 2011, 2012 and 2013, our forfeited income, meaning the revenue recognised upon the expiry of pre-paid coupons and membership card value, were HK\$3.8 million, HK\$12.4 million and HK\$10.3 million, respectively, representing 0.8%, 2.1% and 1.6% of our revenue, or 1.2%, 3.1% or 2.4% of our Direct Sales revenue, in the respective years. We believe that customers of our Direct Sales include a broad range of consumers in the mass market in Hong Kong and mainly the mid-to-high income group in China.

Our Indirect Sales channels, which are primarily for sales of our Long Shelf-life Drinks, comprise (i) sales to third-party retailers, such as our key-account customers (including a number of large and well-known chains of supermarkets and convenience stores in Hong Kong and China) and other retailers, such as restaurants, bakeries and grocery stores in Hong Kong and China, and (ii) sales to distributors who on-sell them to sub-distributors or retailers in Hong Kong, China and overseas. The third-party retailers purchase our products in bulk quantities with some discount from the retail price suggested by us and then on-sell them to end-customers. We also sell our products to our distributors, who distribute them to other sub-distributors and retailers in the regions where they operate. These distributors are typically engaged in the distribution of food and beverage products and operate well-established local distribution networks. We had ten and nine key-account customers in Hong Kong and China, respectively, as at the Latest Practicable Date. In 2011, 2012 and 2013, sales to our key-account customers in Hong Kong contributed to 67.1%, 65.9% and 63.1% of our sales revenue from Indirect Sales in Hong Kong, respectively, and sales to our key-account customers in China contributed to 25.7%, 23.1% and 37.1% of our sales revenue from Indirect Sales in China in the respective years.

### **Our Suppliers and Production Facilities**

Our major suppliers include suppliers of our packaging materials, raw food materials such as Chinese herbs, and food products which we sell at our retail shops. As at the Latest Practicable Date, we had three principal production facilities in operation in Tsuen Wan, Shenzhen (Guanlan) and Dongguan, and we are in the process of setting up two additional production facilities in Tai Po and Suzhou. Please see page 161 for the production capacity of our production facilities.

### **OUR COMPETITIVE STRENGTHS**

We believe we have the following competitive strengths:

- Well-recognised brand in Chinese herbal drink, soup and herbal jelly markets
- Effective two-channel sales model of Direct Sales and Indirect Sales
- Integrated operation model with strong marketing and product roll-out capabilities
- Stringent quality control and assurance systems and established relationship with quality suppliers
- Innovative and strong marketing capability
- Experienced management team with strong track record of effective leadership and execution

## SUMMARY

### OUR BUSINESS STRATEGIES

Our key business strategies are to:

- Further enhance our brand image through effective marketing strategy focusing on our healthy lifestyle concept, product safety and quality, and further leverage on our popular membership system
- Continue to optimise and expand our extensive Direct Sales channels in Hong Kong
- Improve our sales and expand our market coverage in China
- Continue to build on the success of our products and enhance our product offering
- Expand and optimise our production capability

### RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business, countries in which we operate and the Global Offering. You should read the entire section “Risk Factors” in this prospectus carefully. Some of the major risks we face include:

- Our business depends significantly on the market recognition of our “鴻福堂 (Hung Fook Tong)” brand and any damage to our brand or failure to effectively promote our brand could materially and adversely impact our business and results of operations.
- We maintain a substantial amount of outstanding coupons and stored values in membership cards. There may be disputes with our customers in relation to the terms and conditions on the use and cancellation of such coupons and membership cards. If a large number of coupon and membership card holders seek to redeem their coupons and stored value in membership card at our retail shops, we may not have sufficient stock in our retail shops to fulfil the redemption by our customers, which may lead to an adverse impact on our reputation, business and results of operation.
- Our revenue from expired pre-paid coupons and stored value in membership cards may not recur in the future, and any decrease in such revenue will adversely affect our financial position.
- As we lease all of the properties on which our retail shops operate, we are exposed to risks relating to the commercial real estate rental market. We may have disputes with our landlords, and if we cannot secure renewal of existing leases on commercially reasonable terms, our business, results of operations and ability to implement our growth strategy will be adversely affected.
- Our retail operation in China has been loss-making during the Track Record Period and our new retail network strategy in China may not be successful, which may adversely affect our operation and financial position.
- Our business and reputation may be affected by product liability claims, litigation, customer complaints, product tampering, food-borne illnesses, health threats, quality control concerns or adverse publicity relating to our products or the Chinese herbal food and drink industry.
- We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business and results of operations.

## SUMMARY

### SUMMARY OF HISTORICAL COMBINED FINANCIAL INFORMATION AND OPERATING DATA

#### Key Income Statement Information

The following table sets forth a summary of the combined income statement information of our Group for the years indicated:

	<u>Year ended 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenue	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Direct Sales</b>			
Hong Kong	317,129	379,683	395,891
China	10,096	21,587	25,186
<b>Sub-total for Direct Sales</b>	<b><u>327,225</u></b>	<b><u>401,270</u></b>	<b><u>421,077</u></b>
<b>Indirect Sales</b>			
Hong Kong	87,347	105,425	111,367
China	42,689	51,353	85,948
Overseas	12,926	13,584	16,447
<b>Sub-total for Indirect Sales</b>	<b><u>142,962</u></b>	<b><u>170,362</u></b>	<b><u>213,762</u></b>
<b>Others (e.g. sales to OEM customers and franchisees)</b>	<b><u>9,111</u></b>	<b><u>7,061</u></b>	<b><u>10,210</u></b>
	<b><u>479,298</u></b>	<b><u>578,693</u></b>	<b><u>645,049</u></b>
<b>Gross profit</b>			
Direct Sales	227,214	288,445	307,809
Indirect Sales	42,650	60,379	75,656
Others	3,228	2,574	3,634
	<b><u>273,092</u></b>	<b><u>351,398</u></b>	<b><u>387,099</u></b>
Gross profit margin (%)	57.0	60.7	60.0
<b>Operating profit</b>	<b>12,201</b>	<b>50,933</b>	<b>50,522</b>
<b>Profit before income tax</b>	<b>9,532</b>	<b>48,115</b>	<b>48,521*</b>
<b>Profit/(loss) attributable to:</b>			
Equity holders of our Company	6,991	35,961	34,468*
Non-controlling interests	(679)	823	1,505
<b>Profit for the year</b>	<b><u>6,312</u></b>	<b><u>36,784</u></b>	<b><u>35,973*</u></b>
Net profit margin (%)	1.5	6.2	5.3

Note:

\* After deducting the one-off listing-related expenses of HK\$5.9 million incurred in 2013.

## SUMMARY

### Key Balance Sheet Information

The following table sets forth a summary of the combined balance sheet information of our Group as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
Non-current assets	77,447	151,117	127,522
Current assets	189,369	206,501	308,656
<b>Total assets</b>	<b>266,816</b>	<b>357,618</b>	<b>436,178</b>
<b>EQUITY</b>			
Share capital	—	—	—
Reserves	30,645	66,957	102,297
	30,645	66,957	102,297
Non-controlling interests	212	1,099	2,704
<b>Total equity</b>	<b>30,857</b>	<b>68,056</b>	<b>105,001</b>
<b>LIABILITIES</b>			
Non-current liabilities	4,246	3,958	27,350
Current liabilities	231,713	285,604	303,827
<b>Total liabilities</b>	<b>235,959</b>	<b>289,562</b>	<b>331,177</b>
<b>Total equity and liabilities</b>	<b>266,816</b>	<b>357,618</b>	<b>436,178</b>

### Key Financial Ratios

The table below sets forth certain of our key financial ratios for the years or as at the dates indicated.

	Year ended/As at 31 December		
	2011	2012	2013
Return on equity <sup>(1)</sup>	22.8%	53.7%	33.7%
Return on total assets <sup>(2)</sup>	2.6%	10.1%	7.9%
Current ratio <sup>(3)</sup>	0.82	0.72	1.02
Net debt to equity ratio <sup>(4)</sup>	N/A	0.79	0.26
Gearing ratio <sup>(5)</sup>	2.24	1.75	1.20

Notes:

1. Profit attributable to equity holders for the year divided by total equity attributable to equity holders.
2. Profit attributable to equity holders for the year divided by total assets.
3. Total current assets divided by total current liabilities.
4. Net debt divided by total equity attributable to equity holders. Net debt is defined as interest-bearing bank and other debts incurred not in the ordinary course of business minus cash and cash equivalents.
5. Total debt divided by total equity attributable to equity holders. Total debt is defined to include interest-bearing bank borrowing and other debts incurred not in the ordinary course of business.

## SUMMARY

### Key Operating Indicators

#### Sales volume

The following table sets forth the sales volume of our products for the periods indicated.

	For the year ended 31 December		
	2011	2012	2013
<b>Fresh Products</b>			
Drinks (million bottles)	8.9	10.4	13.2
Chinese-style soups (million, serving size of 400mL)	2.5	3.0	2.8
Tortoise and herbal jelly (million, serving size of 275mL)	2.8	2.6	2.2
Other food products ( <i>Note</i> )	N/A	N/A	N/A
<b>Long Shelf-life Drinks (million bottles)</b>	44.9	52.0	55.7

*Note:* Other food products include snacks, desserts, rice and noodles and festival food products. It comprises a wide variety of food items, some of which we purchased from third party suppliers.

#### Average selling price

The following table sets forth the average selling price of our products for the periods indicated.

	For the year ended 31 December		
	2011	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Fresh Products</b>			
Drinks (per bottle)	13.37	14.51	14.25
Chinese-style soups (per serving)	30.33	34.20	34.80
Tortoise and herbal jelly (per serving)	21.73	25.04	27.59
Other food products ( <i>Note</i> )	5–30	5–27	5–30
Long Shelf-life Drinks (per bottle)	3.02	3.05	3.18

*Note:* Based on the actual selling prices of the various food items

#### Major expenses by nature

The table below sets forth our major expenses by nature for the periods indicated:

	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
Cost of raw materials	170,062	35.5	180,278	31.2	203,976	31.6
Rental expenses relating to our retail shops	62,383	13.0	74,692	12.9	83,428	12.9
Staff cost (including Directors' emoluments)	125,079	26.1	147,756	25.5	167,211	25.9

## SUMMARY

### **Same Store Sales Growth in Hong Kong**

The growth in revenue from our retail shops in Hong Kong that were open throughout the years being compared was 10.0% and 5.6% for 2012 and 2013, respectively. For details, please see the section “Financial Information — Key Factors Affecting Financial Position and Results of Operations of Our Group — Factors relating to our Direct Sales” on page 224 of this prospectus.

### **Summary of Financial Information of Taclon**

We acquired Taclon for a consideration of HK\$82.6 million, which was settled on 26 March 2014 by set-off against the amounts due from HFT Industrial (the vendor) and its related companies. The principal asset of Taclon is a long-term leasehold for a two-storey production facility located in the Tai Po Industrial Estate, Hong Kong for a term until 2047, and the related plant and machinery located therein, which is being modified and set up to become one of our future production facilities. Prior to the Taclon Acquisition, only approximately 7% of the gross floor area of the Tai Po production facility was occupied by two water production lines, which were then used by Aqua Pure, a connected person, for its bottled water production. We intend to use the Tai Po production facility as our main production facility in Hong Kong, which is expected to commence full operation in September to October 2014, gradually replacing our existing Tsuen Wan production facility. Our capital expenditure for the expansion of the Tai Po production facility is estimated to be approximately HK\$76 million, which is paid by instalments, with the balance expected to be fully paid by 2015. For details on the Taclon Acquisition, please see “History and Development — Our Group Companies — Taclon Acquisition” beginning on page 98 of this prospectus.

The table below sets forth, for the periods indicated, information relating to certain income and expense items included in the statements of comprehensive income of Taclon.

	<b>Year ended 31 March 2012</b>	<b>Nine months ended 31 December 2012</b>	<b>Year ended 31 December 2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other income	7,105,389	1,682,481	2,176,862
Operating profit/(losses)	3,524,356	(495,803)	(32,915)
Loss before income tax	(922,955)	(3,322,057)	(3,081,346)
Loss and total comprehensive loss for the year/ period attributable to equity holders	<u>(922,955)</u>	<u>(3,322,057)</u>	<u>(3,081,346)</u>

## SUMMARY

The table below sets forth statements of financial position of Taclon as at the dates indicated.

	As at	As at 31 December	
	31 March	2012	2013
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Non-current assets	35,851,450	35,604,734	58,945,744
Current assets	12,057,593	15,701,948	35,393,105
<b>Total assets</b>	<u>47,909,043</u>	<u>51,306,682</u>	<u>94,338,849</u>
Total shareholder's deficit	(63,494,824)	(66,816,881)	(4,046,627)
Non-current liabilities	—	69,500,822	42,990,827
Current liabilities	111,403,867	48,622,741	55,394,649
Total liabilities	111,403,867	118,123,563	98,385,476
<b>Total equity and liabilities</b>	<u>47,909,043</u>	<u>51,306,682</u>	<u>94,338,849</u>
<b>Net current liabilities</b>	<u>(99,346,274)</u>	<u>(32,920,793)</u>	<u>(20,001,544)</u>
<b>Total assets less current liabilities</b>	<u>(63,494,824)</u>	<u>2,683,941</u>	<u>38,944,200</u>

During the year ended 31 March 2012, the nine months ended 31 December 2012 and the year ended 31 December 2013, Taclon had net cash flows used in its operation because Taclon incurred loss mainly due to settlement of accruals and payables and payment of administrative expenses.

### Listing-related Expenses

The total listing-related expenses are estimated to be approximately HK\$34.0 million. In 2013, we incurred expenses of HK\$7.8 million in connection with the Global Offering, of which HK\$5.9 million were accounted for as our administrative expenses for 2013 with the remaining HK\$1.9 million recorded as prepayment in the accounts. By the completion of the Global Offering, we expect to incur additional listing-related expenses of approximately HK\$26.2 million of which an estimated amount of approximately HK\$15.6 million is to be recognised as our administrative expenses and the remaining estimated listing-related expenses is expected to be charged to equity upon the Listing. Such expenses are expected to be charged for the year ending 31 December 2014.

### PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”) has valued our interest in the long-term leasehold held by Taclon as at 31 March 2014, as set out in Appendix III to this prospectus. The key assumptions adopted by JLL in valuing the property include, among others, the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest; and the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its value. In connection with the valuation, JLL applied the direct comparison method based assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant property markets. Investors are advised that the appraised value of our property interest shall not be taken as their actual realisable value or a forecast of their realisable value. Please see page 31 for further discussion.



## SUMMARY

### RECENT DEVELOPMENTS

Based on our unaudited management accounts, we continued to experience stable growth and record stable revenue during the four months ended 30 April 2014. Our revenue and gross profit increased compared to that for the corresponding period in 2013, while our gross margin for the four months ended 30 April 2014 remained stable compared to that for the corresponding period in 2013. Our Directors confirm that save for the increase in bank borrowings as a result of the Taclon Acquisition, there has been no material adverse change in our financial condition since 31 December 2013 to the date of this prospectus. As far as our Directors are aware, there was no material change in the general economic or market conditions in Hong Kong and China which would have a material and adverse impact on our business operation or financial condition since 31 December 2013 to the date of this prospectus.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$1.15, we estimate that we will receive net proceeds of approximately HK\$147.7 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering if the Over-allotment Option is not exercised, which we intend to use for the following purposes:

- (i) approximately 35.3%, or HK\$52.2 million, will be used for opening of new retail shops in Hong Kong and China in 2014 to 2016;
- (ii) approximately 22.7%, or HK\$33.5 million, will be used for promotion and marketing;
- (iii) approximately 3.7%, or HK\$5.4 million, will be used for improving our information system;
- (iv) approximately 8.3%, or HK\$12.3 million, will be used for recruitment of new staff;
- (v) approximately 6.7%, or HK\$9.9 million, will be used for expansion of our distribution network for Indirect Sales in China;
- (vi) approximately 13.3% or HK\$19.6 million, will be used for repayment of bank borrowing; and
- (vii) approximately 10.0%, or HK\$14.8 million, will be used for working capital and other general corporate purposes of our Group.

For details, please see the section "Future Plans and Use of Proceeds" on page 278 of this prospectus.

### STATISTICS OF THE GLOBAL OFFERING

	Based on an Offer Price of HK\$1.00	Based on an Offer Price of HK\$1.30
Market capitalisation of the Shares <sup>(1)</sup>	HK\$632.0 million	HK\$821.6 million
Unaudited pro forma adjusted net tangible assets per Share <sup>(2), (3)</sup>	HK\$0.37	HK\$0.44

*Notes:*

- (1) The calculation of market capitalisation is based on each indicative Offer Price and 632,000,000 Shares in issue immediately after completion of the Global Offering.
- (2) The unaudited pro forma adjusted net tangible assets value per Share has been arrived at after the adjustments referred to in the section "Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets of Our Group" on page 277 of this prospectus and on the basis of 632,000,000 Shares in issue immediately after the completion of the Global Offering.
- (3) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2013. In particular, the unaudited pro forma adjusted net tangible assets of our Group do not take into account the dividend of HK\$40 million declared by our Company and paid in full in June 2014 to the shareholders. The unaudited pro forma net tangible assets per share would have been HK\$0.31 and HK\$0.38 per share based on the Offer Price of HK\$1.00 and HK\$1.30 respectively, after taking into account the declaration of such dividend.

## SUMMARY

### SHAREHOLDERS INFORMATION

Immediately following the completion of the Global Offering and the Capitalisation Issue, each of Ms. Wong, Mr. PT Tse, Mr. Kwan, Think Expert, YITAO and Prestigious Time will be a Controlling Shareholder and they will together, directly or through their respective controlled entities, control 62.3% of the voting rights in our Company pursuant to the Acting in Concert Confirmation, and Mr. PS Tse, Dr. Szeto and Mr. Wong will directly or through their respective controlled entities, control 6.5%, 3.6% and 2.6% of the voting rights in our Company, respectively.

We have granted 12,636,000 Pre-IPO Share Options, representing approximately 2% of the issued share capital of our Company upon completion of the Global Offering and Capitalisation Issue. Assuming full exercise of such options (assuming the Over-allotment Option is not exercised) and that the Offer Price is at HK\$1.15 (being the mid-point of the Offer Price range), (i) (without taking into account the recognition of the share-based compensation expense) the shareholding of our Shareholders immediately following the Global Offering and Capitalisation Issue will be diluted by approximately 2% and our earnings per share will be reduced by approximately 0.3% (unaudited), and (ii) the fair value of the Pre-IPO Share Options is expected to be HK\$14.4 million, which will be substantially recognised as share-based compensation expenses in 2014.

### DIVIDEND POLICY

We declared and paid dividends of HK\$7.0 million in 2011 and we have not declared or paid any dividends in 2012 or 2013. We declared interim dividends in June 2014 of HK\$40.0 million, which has been fully paid in June 2014. We currently do not have a fixed dividend policy and the declaration, payment and amount of any future dividends will be subject to our discretion and depend on factors, such as our financial condition, statutory and regulatory restrictions in relation thereto and future prospects. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Please see page 266 for details.

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.*

“Acting in Concert Confirmation”	a deed of confirmation dated 27 March 2014 executed by Ms. Wong, Mr. PT Tse and Mr. Kwan, whereby they confirmed the existence of their acting in concert arrangement, a summary of which is set out in the section “Relationship with Controlling Shareholders” in this prospectus
“Aolong”	Aolong Limited (奧朗有限公司), a company incorporated in BVI on 2 August 2013 which is directly wholly-owned by Dr. Szeto and is a Shareholder of our Company
“AP Logistics”	A.P. Logistics Co., Limited, a company incorporated in Hong Kong on 22 May 2003 which is owned by HFT Industrial and Ms. Wong and is a connected person of our Company
“Application Form(s)”	<b>WHITE, YELLOW, GREEN</b> and <b>PINK</b> application form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of our Company adopted on 11 June 2014 which will take effect from the Listing Date, as amended from time to time
“Aqua Pure ”	Aqua Pure Distilled Water Co. Limited (清泉純蒸餾水有限公司), a company incorporated in Hong Kong on 4 January 1991 and directly wholly-owned by HFT Industrial and is a connected person of our Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day(s) (excluding Saturday(s) and Sunday(s)) in Hong Kong on which licenced banks in Hong Kong are open for banking business throughout their normal business hours
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the capitalisation of an amount of HK\$4,730,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 473,000,000 Shares for allotment and issue to the Shareholders as resolved by the Shareholders on 11 June 2014
“Cayman Islands Company Law”	the Companies Law Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

## DEFINITIONS

“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chinese Medicine Ordinance” or “CMO”	Chinese Medicine Ordinance (Chapter 549 of the Laws of Hong Kong)
“Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company” and “our Company”	Hung Fook Tong Group Holdings Limited (鴻福堂集團控股有限公司), the holding company of our Group after the Reorganisation and the listing vehicle for the Listing, which is an exempted company with limited liability incorporated on 10 January 2014 in the Cayman Islands
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to Ms. Wong, Mr. PT Tse, Mr. Kwan, Think Expert, YITAO and Prestigious Time, who will together control the exercise of 62.3% of the voting rights in the general meeting of our Company immediately following the completion of the Global Offering and the Capitalisation Issue
“Deed of Indemnity”	the deed of indemnity dated 13 June 2014 executed by our Controlling Shareholders (as indemnifiers) in favour of our Company, particulars of which are set out in “Appendix V — Statutory and General Information — G. Other information — 2. Indemnities given by the Controlling Shareholders” in this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 13 June 2014 executed by our Controlling Shareholders (as covenantors) and our Company, particulars of which are set out in the section “Relationship with Controlling Shareholders — Deed of Non-Competition” in this prospectus
“Direct Sales”	sales of our products directly to customers whom we believe are end consumers of such products generally, including cash sales and sales through redemption of coupons and stored value in pre-paid membership cards at our retail shops and at other locations
“Director(s)” and “our Director(s)”	director(s) of our Company

## DEFINITIONS

“Dr. Szeto”	Dr. Szeto Wing Fu, an executive Director and a Shareholder of our Company
“Electronic Application Instruction(s)”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Hong Kong Offer Shares
“Eligible Employees”	all full-time employees (as defined under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong)) of our Group who have joined our Group on or before the Latest Practicable Date and have a Hong Kong address
“Employee Preferential Offering”	the offer of up to 1,580,000 Hong Kong Offer Shares to Eligible Employees as described in the section “Structure of the Global Offering — Employee Preferential Offering” in this prospectus
“Employee Reserved Shares”	the 1,580,000 Hong Kong Offer Shares (representing 1% of the Offer Shares initially available under the Global Offering) available in the Employee Preferential Offering and which are to be allocated out of the Hong Kong Offer Shares
“Fresh Product(s)”	product(s), including drinks, soup, jelly and other food products, that are produced without undergoing ultra-high temperature sterilisation process and have a relatively short shelf-life and are principally sold at our retail shops in Hong Kong and China
“Gaoda (Dongguan)”	Gaoda Plastic Bottle (Dongguan) Company Limited* (高達塑膠瓶(東莞)有限公司), a company established in China on 3 May 2012, directly wholly-owned by Goldmark, which is a subsidiary indirectly owned as to 51% by our Company
“Gaoda (Shenzhen)”	Gaoda Plastic Bottle (Shenzhen) Company Limited* (高達塑膠瓶(深圳)有限公司), a company established in China on 18 September 2003 and wholly-owned by Mr. Kwan
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Gold Medal”	Gold Medal Development Limited (金牌發展有限公司), a company incorporated with limited liability in Hong Kong on 20 December 2013 and owned as to 70% by our subsidiary, Luck Access, and as to 30% by our JV Partner, details of which are set out in the section “History and Development — Our Group Companies — Shanghai Joint Venture” in this prospectus
“Gold Work”	Gold Work Limited, a company incorporated in Hong Kong on 1 April 2010, directly wholly-owned by HFT BVI and a wholly-owned subsidiary of our Company
“Goldmark”	Goldmark Plastic Bottle Manufacturing Limited (高達膠瓶廠有限公司), a company incorporated in Hong Kong on 11 October 2002, owned as to 51% by Gold Work and as to 49% by Mr. Chan Yu Kai (陳羽佳) (who is a director of Gaoda (Dongguan)), and is a non-wholly-owned subsidiary of our Company

## DEFINITIONS

“GREEN Application Form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “we”, “our Group” and “us”	our Company and its subsidiaries or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company, some or any of them and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HFH”	Hung Fook Hong Health Food (Shenzhen) Company Limited* (鴻福行保健食品(深圳)有限公司), a company established in China on 3 November 1998, directly wholly-owned by HFT (China) Development and a wholly-owned subsidiary of our Company
“HFT (China) Development”	Hung Fook Tong (China) Development Limited (鴻福堂(中國)發展有限公司), a company incorporated in Hong Kong on 29 April 1993, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT (China) Investment”	Hung Fook Tong (China) Investment Limited (鴻福堂(中國)投資有限公司), a company incorporated in Hong Kong on 25 January 2011, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT (Guangdong)”	Hung Fook Tong Herbal Tea (Guangdong) Company Limited* (鴻福堂涼茶(廣東)有限公司), a company established in China on 13 March 2008, directly wholly-owned by HFT International and a wholly-owned subsidiary of our Company
“HFT (Guangzhou) Trading”	Hung Fook Tong (Guangzhou) Trading Company Limited* (鴻福堂(廣州)貿易有限公司), a company established in China on 9 December 2011, directly wholly-owned by HFT Trading Co. and a wholly-owned subsidiary of our Company
“HFT (Herbal Tea)”	Hung Fook Tong (Herbal Tea) Limited (鴻福堂(涼茶)有限公司), a company incorporated in Hong Kong on 13 January 1989, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT (Shanghai)”	Hung Fook Tong Herbal Tea and Food (Shanghai) Company Limited* (鴻福堂涼茶食品(上海)有限公司), a company established in China on 8 September 2011, directly wholly-owned by HFT International and a wholly-owned subsidiary of our Company
“HFT BVI”	Hung Fook Tong Group Limited, a company incorporated in the BVI on 17 January 2014, which is directly wholly-owned by our Company

## DEFINITIONS

“HFT Franchise System”	Hung Fook Tong Franchise System Management Limited (鴻福堂特許經營管理有限公司), a company incorporated in Hong Kong on 19 November 1992, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT Franchisor Consultancy”	Hung Fook Tong Franchisor Consultancy Limited, a company incorporated in Hong Kong on 20 April 1993, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT Herbal Tea Holdings”	Hung Fook Tong Herbal Tea Holdings Limited (鴻福堂涼茶集團有限公司), a company incorporated in Hong Kong on 10 January 2007, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT Holdings”	Hung Fook Tong Holdings Limited (鴻福堂集團有限公司), a company incorporated in Hong Kong on 6 May 1993, directly wholly-owned by HFT BVI and a wholly-owned subsidiary of our Company
“HFT Industrial”	Hung Fook Tong Industrial Company Limited (鴻福堂實業有限公司), a company incorporated in Hong Kong on 12 March 2012, owned as to 42.75% by Ms. Wong, 23.75% by Mr. PT Tse, 19% by Mr. Kwan, 9.5% by Mr. PS Tse and 5.0% by Dr. Szeto, each a connected person of our Company
“HFT International”	Hung Fook Tong International Limited (鴻福堂國際有限公司), a company incorporated in Hong Kong on 20 July 1993, directly wholly-owned by HFT BVI and a wholly-owned subsidiary of our Company
“HFT Management Institute”	Hung Fook Tong Management Institute Limited (鴻福堂管理學院有限公司), a company incorporated in Hong Kong on 17 December 2005, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT Property Leasing”	Hung Fook Tong Property Leasing Limited (鴻福堂物業租賃有限公司), a company incorporated in Hong Kong on 20 April 1993, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT Real Property”	Hung Fook Tong Real Property Limited (鴻福堂物業投資有限公司), a company incorporated in Hong Kong on 22 July 1988, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HFT Services”	Hung Fook Tong Services Limited (鴻福堂服務有限公司), a company incorporated in Hong Kong on 4 October 1994, directly wholly-owned by HFT BVI and a wholly-owned subsidiary of our Company
“HFT Trading Co.”	Hung Fook Tong Trading Company Limited (鴻福堂貿易有限公司), a company incorporated in Hong Kong on 23 May 2006, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company

## DEFINITIONS

“HK HFT Herbal Tea”	Hong Kong Hung Fook Tong Herbal Tea Holdings Limited (香港鴻福堂涼茶集團有限公司), a company incorporated in Hong Kong on 24 December 2007, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 15,800,000 newly issued Shares offered by our Company for subscription under the Hong Kong Public Offering, representing 10% of the initial number of the Offer Shares subject to adjustment as described in the section “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares by our Company for subscription by members of the public in Hong Kong (subject to adjustment as described in the section “Structure of the Global Offering” in this prospectus) for cash at the Offer Price, payable in full on application, and subject to the terms and conditions stated herein and in the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriter(s)”	the underwriter(s) of the Hong Kong Public Offering listed in the section “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offering entered into amongst our Company, the Sole Global Coordinator, the Hong Kong Underwriters, Ms. Wong, Mr. PT Tse, Mr. Kwan, Think Expert, YITAO, Prestigious Time, Dr. Szeto, Mr. PS Tse and Aolong on 20 June 2014, particulars of which are set forth in the section “Underwriting” in this prospectus
“Independent Third Party(ies)”	party(ies) which are independent of and not connected with any Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules
“Indirect Sales”	our sales of products to third-party retailers and distributors who generally make further sales of our products to their customers



## DEFINITIONS

“International Offer Shares”	the 142,200,000 Shares being offered by our Company for subscription under the International Offering subject to adjustment together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option as described in the section “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional placing of the International Offer Shares for and on behalf of our Company outside the United States in reliance on Regulation S, subject to adjustment and the exercise of the Over-allotment Option as described in the section “Structure of the Global Offering” in this prospectus
“International Underwriting Agreement”	the conditional underwriting agreement expected to be entered into on or around the Price Determination Date, among, amongst others, our Company, the Sole Global Coordinator and the International Underwriters in respect of the International Offering, particulars of which are set forth in the section “Underwriting” in this prospectus
“International Underwriters”	the underwriters of the International Offering whose names are set forth in the section “Underwriting — International Underwriters” in this prospectus
“Ipsos”	Ipsos Hong Kong Limited, an independent industry consultant commissioned by us to prepare the Ipsos Report
“Ipsos Report”	an independent research report dated 13 June 2014, commissioned by us and prepared by Ipsos for the purpose of this prospectus
“Joint Bookrunners”	Crosby Securities Limited and Shenyin Wanguo Capital (H.K.) Limited
“Joint Lead Managers”	Crosby Securities Limited and Shenyin Wanguo Capital (H.K.) Limited
“JV Partner”	Prime Strategy Enterprises Limited (雄略企業有限公司), a company incorporated with limited liability in BVI on 31 January 2013, our joint venture partner which holds 30% of the equity interest in Gold Medal and is an Independent Third Party save for its interest in Gold Medal
“kg”	kilograms
“Latest Practicable Date”	13 June 2014, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange

## DEFINITIONS

“Listing Date”	the date on which dealing in the Shares on the Main Board of the Stock Exchange commences
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Shelf-life Drinks”	drink products, including Chinese herbal and non-herbal drinks, that are produced with ultra-high temperature sterilisation process and generally have a relatively long shelf-life ranging from eight to 14 months and are principally sold to distributors and third-party retailers
“Luck Access”	Luck Access Investment Develop Limited (運通投資發展有限公司), a company incorporated with limited liability in Hong Kong on 3 December 2013, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company, which holds 70% of the equity interest in Gold Medal
“Macau”	the Macau Special Administrative Region of the PRC
“Major Guangdong Cities”	Guangzhou, Shenzhen, Dongguan and other cities in the Guangdong Province, China we sell our products through our Indirect Sales
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company adopted on 11 June 2014, as amended from time to time
“Metro”	the mass transit railway systems in China, in particular the Metro Systems in Shenzhen and Guangzhou for the purpose of this prospectus
“Metro Shops”	our retail shops which are located at Metro stations in China
“Ming Tong (Shanghai)”	Ming Tong Catering Management (Shanghai) Company Limited* (鳴堂餐飲管理(上海)有限公司), a company established in China on 12 September 2013, directly wholly-owned by HFT International and a wholly-owned subsidiary of our Company
“MTR”	mass transit railway in Hong Kong
“MTR Shops”	our retail shops which are located at MTR stations in Hong Kong
“Mr. Kwan”	Mr. Kwan Wang Yung, an executive Director and a Controlling Shareholder of our Company
“Mr. PS Tse”	Mr. Tse Po Shing, a non-executive Director and a Shareholder of our Company
“Mr. PT Tse”	Mr. Tse Po Tat, an executive Director and a Controlling Shareholder of our Company
“Mr. Wong”	Mr. Wong Fat Mo lan, a Shareholder of our Company

## DEFINITIONS

“Ms. Wong”	Ms. Wong Pui Chu, an executive Director and a Controlling Shareholder of our Company
“OEM”	abbreviation of “original equipment manufacturer”, which refers to a manufacturer that supplies a product to its customers who sell them in their own brands, or the operation of such manufacturer
“OEM Products”	drink products we supply to our single OEM customer as at the Latest Practicable Date, which is a large scale convenience store chain, which sells them principally under its own brand at its convenience store outlets
“Offer Price”	the final price for each Offer Share (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee payable thereon) of not more than HK\$1.30 per Offer Share and is expected to be not less than HK\$1.00 per Offer Share at which the Offer Shares are to be subscribed for or purchased pursuant to the Global Offering
“Offer Share(s)”	the Hong Kong Offer Shares (including the Employee Reserved Shares) and the International Offer Shares together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option
“Old Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to the enactment of the Companies Ordinance
“Over-allotment Option”	the option to be granted by our Company to the Sole Global Coordinator, exercisable by it on behalf of the International Underwriters pursuant to the International Underwriting Agreement, to issue up to 23,700,000 Shares, representing 15% of the Offer Shares initially offered under the Global Offering at the Offer Price
“ <b>PINK</b> Application Form(s)”	the application form(s) for use by Eligible Employees to subscribe for Employee Reserved Shares pursuant to the Employee Preferential Offering
“POS”	point of sale
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus only, excludes Hong Kong, Macau and Taiwan
“PRC government”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng, a qualified PRC law firm, which is the PRC legal advisers to our Company for the application for the Listing
“Pre-IPO Share Option(s)”	option granted under the Pre-IPO Share Option Scheme

## DEFINITIONS

“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme conditionally adopted by our Shareholders on 11 June 2014 for the benefit of our Directors, members of senior management, employees and other eligible participants defined in the scheme, a summary of the principal terms of which is set forth in “Appendix V — Statutory and General Information — E. Share Option Schemes — Pre-IPO Share Option Scheme” to this prospectus
“Prestigious Time”	Prestigious Time Limited (寶時有限公司), a company incorporated in the BVI on 29 August 2013 and wholly-owned by Mr. Kwan, which is a Controlling Shareholder
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date to fix and record the Offer Price
“Price Determination Date”	the date on which the Offer Price is to be determined by our Company and the Sole Global Coordinator (for itself and on behalf of the other Underwriters), which is expected to be on or around Friday, 27 June 2014 and in any event not later than 12:00 noon on Wednesday, 2 July 2014
“Production Facilities”	our three principal production facilities in operation as at the Latest Practicable Date at Tsuen Wan, Shenzhen (Guanlan) and Guangdong (Dongguan)
“Province(s)”	provinces, and unless the context requires otherwise, including provincial level autonomous region or provincial-level city under the direct supervision of the Central Government of the PRC
“QoL”	Quality of Life Products Company Limited (生活良方產品有限公司), a company incorporated in Hong Kong on 21 July 1992, directly wholly-owned by HFT Holdings and a wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the US Securities Act
“Relevant Subsidiary(ies)”	Gaoda (Dongguan), Gold Work, Goldmark, HFH, HFT (China) Development, HFT (China) Investment, HFT (Guangdong), HFT (Guangzhou) Trading, HFT (Herbal Tea), HFT (Shanghai), HFT Franchise System, HFT Franchisor Consultancy, HFT Herbal Tea Holdings, HFT Holdings, HFT International, HFT Management Institute, HFT Property Leasing, HFT Real Property, HFT Services, HFT Trading Co., HK HFT Herbal Tea, Ming Tong (Shanghai), QoL, and the “Hung Fook Tung” outlets in China operated as individual proprietorships under the name of Mr. Kwan and Ms. Lam Hiu Yin (林曉燕) for and on behalf of HFT International under an entrustment arrangement, details of which is set out in the section “History and Development — Our Business History — History and Restructuring of our PRC Operation” in this prospectus

## DEFINITIONS

“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described in the section “History and Development — Our Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the PRC State Administration of Foreign Exchange
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai JV Agreement”	the shareholders agreement dated 25 March 2014 entered into between Luck Access and our JV Partner in respect of the operation and management of Gold Medal. Please see the section “History and Development — Our Group Companies — Shanghai Joint Venture” in this prospectus for further details
“Share(s)”	share(s) of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Share(s)
“Share Option(s)”	options granted under the Share Option Scheme
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 11 June 2014, a summary of principal terms of which is set out under “Appendix V — Statutory and General Information — E. Share Option Schemes — Share Option Scheme” to this prospectus
“Share Option Schemes”	the Pre-IPO Share Option Scheme and the Share Option Scheme
“Share Swap Agreement A”	the agreement for the sale and purchase of 5% of the issued share capital of HFT Holdings entered into between our Company and Mr. Wong dated 28 February 2014, details of which are set out in the section “History and Development — Our Reorganisation — paragraph (3)(A)” in this prospectus
“Share Swap Agreement B”	the agreement for the sale and purchase of 95% of the issued share capital of HFT Holdings and the entire issued share capital of HFT Services, Gold Work and HFT International entered into between our Company (as purchaser) and Ms. Wong, Mr. PT Tse, Mr. PS Tse, Mr. Kwan and Dr. Szeto (together as the vendors) dated 14 March 2014, details of which are set out in the section “History and Development — Our Reorganisation — paragraph (3)(B)” in this prospectus
“shopping mall(s)”	includes, for the purpose of this prospectus, shopping mall(s), plaza(s), office(s), commercial complex(es) or other building(s) where our retail shops (other than our MTR shops/Metro shops and street shops) are located, and such retail shops are described in this prospectus as our shopping mall shops

## DEFINITIONS

“Sole Global Coordinator”	Crosby Securities Limited
“Sole Sponsor”	Crosby Securities Limited
“sq.ft.”	square feet
“sq.m.”	square metres
“Stabilising Manager”	Crosby Securities Limited
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between Think Expert and the Sole Global Coordinator, pursuant to which the Sole Global Coordinator may borrow up to 23,700,000 Shares to cover any over-allocation in the International Offering
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has/have the meaning ascribed thereto under the Listing Rules
“Substantial Shareholder(s)”	has/have the meaning ascribed thereto under the Listing Rules
“Taclon”	Taclon Industries Limited (德隆工業有限公司), a company incorporated in Hong Kong on 15 December 1972, directly wholly-owned by HFT BVI and a wholly-owned subsidiary of our Company
“Taclon Acquisition”	the acquisition of the entire issued share capital of Taclon by our Group through HFT BVI, details of which are set out in the section “History and Development — Our Group Companies — Taclon Acquisition” in this prospectus
“Taclon Sale and Purchase Agreement”	the agreement for the sale and purchase of the entire issued share capital of Taclon dated 26 March 2014, entered into between HFT BVI (as purchaser) and HFT Industrial, Ms. Wong and Mr. PT Tse (together as the vendors) for a consideration of HK\$82,568,490.00
“Think Expert”	Think Expert Investments Limited, a company incorporated in BVI on 22 January 2004 and wholly-owned by Ms. Wong, which is a Controlling Shareholder of our Company
“Track Record Period”	the three years ended 31 December 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“USD” or “US\$”	United States dollars, the lawful currency of the United States
“US Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

## DEFINITIONS

“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's/ applicants' own name
“ <b>White Form eIPO</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant's own name, submitted online through the designated website of the White Form eIPO Service Provider, <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“ <b>YITAO</b> ”	YITAO Investments Limited (溢滔投資有限公司), a company incorporated in the BVI on 5 July 2013 and wholly-owned by Mr. PT Tse, which is a Controlling Shareholder of our Company
“%”	per cent

*In this prospectus, unless expressly stated or the context requires otherwise:*

- *all data in this prospectus is as of the date of this prospectus.*
- *percentage shareholding of our Company upon or after the completion of Global Offering and the Capitalisation Issue represents percentage shareholding calculated on the basis without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option and options which have been or may be granted under the Share Option Schemes.*
- *amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.*

*For ease of reference, the names of the PRC established companies or entities have been included in this prospectus in both Chinese and English. The name in Chinese is the official name of each such company or entity, while that in English is only an unofficial translation, and in the event of any inconsistency, the Chinese version shall prevail.*

*\* For identification purpose only*

## GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usages of these terms.*

“Chinese herbal drinks/products”	drinks/products produced with one or more ingredients listed in the Chinese Medicine Ordinance, the Chinese Pharmacopoeia or the Compendium of Materia Medica
“Chinese Pharmacopoeia (中國藥典)”	the Pharmacopoeia of China, compiled by the Pharmacopoeia Commission of the Ministry of Health of China, is an official compendium of drugs covering traditional Chinese and western medicines and giving information on the standards of purity, description, test, dosage, precaution, storage, and the strength for each drug
“Compendium of Materia Medica (本草綱目)”	the Compendium of Materia Medica reputed to be compiled by Li Shizhen in the Ming Dynasty of China listing the plants, animals, minerals, and other items that were believed to have medicinal properties
“MSG”	monosodium glutamate, a common food additive
“PET bottle”	polyethylene terephthalate bottle
“pH”	a measurement of acidity or basicity of an aqueous solution



## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” of this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section “Risk Factors” of this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our capital expenditure and future plans;
- our ability to identify and successfully take advantage of new business development opportunities;
- our dividend policy;
- our prospective financial information; and
- the regulatory environment and industry outlook for the retail food and beverage industries.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the central and local governments in China and Hong Kong relating to any aspect of our business or operations;
- general economic, market and business conditions in Hong Kong and China;
- macroeconomic policies of the PRC government;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section “Risk Factors” in this prospectus.

## RISK FACTORS



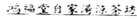

*In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. Any of the following risks, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, may materially and adversely affect our business, financial condition or results of operations, or otherwise cause a decrease in the trading price of the Offer Shares and cause you to lose part or all of the value of your investment in the Offer Shares.*

### RISKS RELATING TO OUR BUSINESS

**Our business depends significantly on the market recognition of our “鴻福堂 (Hung Fook Tong)” brand and any damage to our brand or failure to effectively promote our brand could materially and adversely impact our business and results of operations.**

We believe our success depends substantially on the popularity of our “鴻福堂 (Hung Fook Tong)” brand and our reputation for trustworthy food and drink products. As at the Latest Practicable Date, we operate our business under our “鴻福堂 (Hung Fook Tong)” brand. We believe that brand recognition plays an important role in influencing consumers’ decisions in purchasing our products. Revenue generated from the sales of products under our “鴻福堂 (Hung Fook Tong)” brand accounted for almost all of our revenue during the Track Record Period. We have invested significant effort and resources to establish brand recognition and have received various awards and recognitions. We believe that our continued success will depend in large part on our ability to protect and enhance the value of our brand. Furthermore, as we continue to expand our sales network, our ability to market and promote our brand will remain critical to the success of our business. We enhance our brand awareness through various channels and methods. For details, please see the section “Business — Marketing, Promotion and Market Research” in this prospectus.

Any incident that erodes consumers’ trust in our brand could significantly reduce our brand value. As we continue to grow in size, expand our food and drink offering and extend our geographic reach, maintaining quality and consistency may become more difficult and we cannot assure you that consumers’ confidence in our brand will not diminish. If consumers perceive or experience a reduction in the quality of our products, service, ambiance, or consider in any way that we are failing to deliver a consistently positive experience, our brand value could suffer, which could have a material adverse effect on our business.

In China, we have successfully registered Hung Fook Tong-related goods marks such as  and  under various classes. We have also registered  **HUNG FOOK TONG** and  as the service marks for our services in the provision of food, soups and drinks. For details, please see the sections “Business — Intellectual Property” in and “Appendix V — Statutory and General Information — B. Further Information About the Business — 2. Our material intellectual property rights” to this prospectus.

Any occurrence of counterfeiting or imitation could impact negatively on our reputation and brand name, and could result in a reduction of our market share, cause a long-term or even permanent decline in our sales and profitability as well as increasing our administrative costs in respect of detection and prosecution.

We consider our trade secrets, trademarks, trade name and other intellectual property to be material for our business. From time to time, our intellectual properties may have been used or infringed by third parties. Preventing intellectual property infringement, particularly in China is difficult, costly and time-consuming, and continued unauthorised use of our intellectual properties by unrelated third parties may damage our reputation and brand image. The measures we take to protect our trademarks, trade secrets and other intellectual property rights may not be adequate to prevent

## RISK FACTORS

unauthorised use by third parties. If we are unable to adequately protect our trademarks, trade secrets and other intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer.

For other risks relating to intellectual property rights, please see the risk factor in the paragraph “We may be exposed to intellectual property infringement claims by third parties, which could disrupt our business and cause us to incur substantial legal costs, or damage our reputation.” below in this section.

**We could be adversely affected by a change in consumer preferences, perception and spending habits and failure to develop or enrich our product offering or gain market acceptance of our new products could have a negative effect on our business.**

The Chinese herbal food and drink market and the food and drink industry in general is subject to changes in consumer preference, perception and spending habits. Our performance depends significantly on factors which may affect the level and pattern of consumer spending in Hong Kong and China. Such factors include consumer preference, consumer confidence, consumer income and consumer perception of the safety and quality of our products. Media coverage regarding the safety or quality of, or diet or health issues relating to, Chinese herbal food and drinks or the raw materials, ingredients or processes involved in their manufacturing, may damage consumer confidence in our products. A general decline in the consumption of our products could occur as a result of change in consumer preference, perception and spending habits at any time.

Any failure to adapt our product offering to respond to such changes may result in a decrease in our sales if such changes are related to certain of our products. Any changes in consumer preference could result in lower sales of our products, put pressure on pricing or lead to increased levels of selling and promotional expenses, resulting in a material adverse effect on our business, financial conditions or results of operations.

The success of our products depends on a number of factors including our ability to accurately anticipate changes in market demand and consumer preferences, our ability to differentiate the quality of our products from those of our competitors, and the effectiveness of our marketing and advertising campaigns for our products. We may not be successful in identifying trends in consumer preferences and developing products that respond to such trends in a timely manner. We also may not be able to effectively promote our products by our marketing and advertising campaigns and gain market acceptance. If our products fail to gain market acceptance, are restricted by regulatory requirements, or have quality problems, we may not be able to fully recover our costs and expenses incurred in the product development, production and marketing process, and our business prospects, financial condition or results of operations may be materially and adversely affected.

**We maintain a substantial amount of outstanding coupons and stored values in membership cards. There may be disputes with our customers in relation to the terms and conditions on the use and cancellation of such coupons and membership cards. If a large number of coupon and membership card holders seek to redeem their coupons and stored value in membership card at our retail shops, we may not have sufficient stock in our retail shops to fulfil the redemption by our customers, which may lead to an adverse impact on our reputation, business and results of operation.**

Sales through redemption of coupons and stored values in membership cards represent an important source of our revenue from our Direct Sales and we generally maintain a substantial amount of coupons and stored values in membership cards which can be redeemed by customers for various types of our products. As at 31 December 2013, our total liabilities in respect of outstanding coupons and stored value in membership cards amounted to HK\$105.5 million. Based on our average daily revenue from Direct Sales for 2013, being approximately HK\$1.15 million per day, it would take

## RISK FACTORS

approximately 92 days for us to discharge our total liabilities in connection with prepayment for coupons and stored value in membership cards as at 31 December 2013 (assuming that the average daily revenue is solely generated from sales through redemption). For illustration purpose, under the extreme scenario of full redemption of our receipts in advance of HK\$105.5 million as at 31 December 2013, we currently estimate that it would take around two months for us to produce sufficient Fresh Products by our existing production facilities to satisfy such full redemption based on the theoretical maximum production capacities of our existing production facilities, details of which set out in the section “Business — Production — Our Existing Production Facilities” in this prospectus. Considering the substantial amount of outstanding coupons and stored value in membership cards held by our customers, if a large number of customers seek redemption at any of our retail shops within a short period of time, in particular for redemption of our festive products around the festive periods, we cannot guarantee that all our retail shops will have sufficient stock to fulfil all purchases or redemptions by our customers, which may lead to an adverse impact on our reputation, business and results of operation. In addition, where these pre-paid coupons and stored value in membership cards are not utilised within the validity period, purchasers of these pre-paid coupons and stored value in membership cards will not be entitled to make redemption for our products. This may lead to complaints and claims against us and affect the image and reputation and hence our business. We have received certain complaints regarding the sales, use and cancellation of our coupons and membership cards, and there have been certain reports in the news media in that connection. Further, there may be disputes with our customers in relation to the sales, use and cancellation of the coupons and membership cards. Such reports and disputes may harm our reputation and sales through such channels, our business and results of operation.

**Our retail operation in China has been loss-making during the Track Record Period and our new retail network strategy in China may not be successful, which may adversely affect our operation and financial position.**

As at 31 December 2011, 2012 and 2013, we operated 15, 32 and 27 retail shops in China and revenue from our retail shops in China amounted to 2.1%, 3.7% and 3.9% of our total revenue in the respective years.

Despite the increase in revenue, our retail operation in China was not able to achieve economies of scale and was not profitable during the Track Record Period, and losses before finance cost attributable to our retail operation in China were HK\$6.3 million, HK\$6.5 million and HK\$3.2 million in 2011, 2012 and 2013, respectively. In 2013, we implemented a refined retail network strategy in China and closed eight under-performing retail shops in China, which include three Metro shops, one shopping mall shop and one street shop in Guangzhou, two Metro shops in Shanghai, and one shopping mall shop in Shenzhen, which have been loss-making. Since 2013, instead of following the business model in Hong Kong to open our retail shops along the Metro stations in China, we changed our focus to shopping malls in business districts and more affluent commercial and residential areas and to open our retail shops in locations where we believe there are sufficient flow of mid-to-high income population who are our target customers in China as we position ourselves at the mid-to-high end segment in the China wellness beverage market.

We intend to allocate from the net proceeds from the Global Offering approximately HK\$4.0 million for opening ten new retail shops in Guangzhou and approximately HK\$5.0 million for opening ten new retail shops in Shanghai in the coming twelve months. Despite the implementation of the above strategy, we may not succeed in our effort to achieve profitability for our retail operation in China by improving the sales performance of our retail shops in China and expanding our retail network to achieve economy of scale, in particular for our new shops in China. Please see the section “Business — Our Strategies — Improve our sales and expand our market coverage in China — (ii) Continue to optimise our retail shop network in China” in this prospectus for details. Our retail shops opened in new locations in China may have lower average sales or higher occupancy or

## RISK FACTORS

operating costs than our retail shops in existing locations. Sales at our new retail shops may take longer than expected to ramp up and reach, or may never reach, expected sales and profit levels, thereby affecting our overall profitability.

There is no assurance that the optimisation plan for our retail network in China will succeed due to a variety of factors, including the sales at our new retail shops and the relevant cost of sales. Any inability to optimise our network may affect the sales and profitability of these shops. Any inability to execute our retail network optimisation plan for the PRC market could adversely affect our business, growth, financial condition and results of operations.

**Our turnover has been, and may continue to be, significantly dependent on sales in Hong Kong.**

In 2011, 2012 and 2013, 86.2%, 85.0% and 80.2% of our total revenue, respectively, were derived from sales in our largest market, Hong Kong. We may continue to derive a significant portion of our turnover from Hong Kong. Our sales and profitability in relation to Hong Kong could be negatively affected by a number of factors, including general economic conditions and demand for our products, adverse publicity relating to our products, competition, or success of the marketing or sales of our products in Hong Kong. Any significant decline in our sales or profitability from this geographic market, due to the above factors or otherwise, could materially adversely affect our results of operations.

**We generally do not enter into long-term arrangements with our suppliers and Indirect Sales customers, including distributors and third-party retailers.**

To remain flexible in our operations, we generally do not enter into long-term agreements or arrangements with our suppliers and Indirect Sales customers, including distributors and third-party retailers. Without entering into a long-term agreement, our Indirect Sales customers or suppliers may reduce or cease purchasing products from us or reduce or cease supplying supplies to us, respectively, at any time in the future, which could adversely affect our business and results of operations. There is no guarantee that our current or future contracts can be negotiated on terms and prices equivalent to or better than current terms and prices. In addition, if we face increased costs from our suppliers, we may not be able to pass on these higher costs along to our customers, which may adversely affect our business and results of operation.

**We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business and results of operations.**

We are subject to various laws and regulations in jurisdictions in which we operate. In respect of our business operations in Hong Kong, we are required to maintain various food business licences, including food factory licences for our production facilities, and light refreshment restaurant licences for sale of light refreshment at our retail shops, which are required to be obtained before commencing operations. The food factory licence and light refreshment restaurant licence is typically granted for a period of one year and renewable annually, subject to continuous compliance with the relevant requirements in the relevant legislation and subsidiary legislation with respect to hygiene and environmental matters and upon payment of the respective licence fees.

In accordance with the laws and regulations of China, we are required to maintain various approvals, licences and permits in order to operate our food and beverage business in China. We are required to obtain relevant food production licences and food circulation licences. In addition, HFH and Gaoda (Dongguan) are required to obtain environmental protection assessment and inspection approvals. These approvals, licences and permits are achieved upon satisfactory compliance with,

## RISK FACTORS

amongst other things, the applicable food safety, hygiene, environmental protection laws and regulations. Most of these licences are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

Compliance with the relevant laws and regulations may require substantial expense, and any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time to remedy any deficiencies. We may also experience adverse publicity arising from such non-compliance with any laws regulations that negatively impacts our brand.

We may experience difficulties or failures in obtaining the necessary approvals, licences and permits for new shops. In addition, there can be no assurance that we will be able to obtain or renew all of the approvals, licences and permits required for our existing business operations upon expiration in a timely manner or at all. If we cannot obtain or maintain all licences required by us to operate our business, planned new business operations and expansion may be delayed and our ongoing business could be interrupted. We may also be subject to fines and penalties.

**The appraisal values of our property may be different from the actual realisable values and are subject to variation, and if the actual realisable value of our property is substantially lower than it appraised value, there may be a material adverse effect on our business, results of operations and financial condition.**

The appraised value of our property in Tai Po as set out in the property valuation report prepared by the Property Valuer as set out in Appendix III to this prospectus is based on various assumptions that include elements of subjectivity and uncertainty such as their relative market position, financial and competitive strengths, locations and physical conditions. Accordingly, the appraised value of our property in Tai Po may differ materially from the price we could receive in an actual sale of the property in the market, and should not be taken as their actual realisable value or a forecast of their realisable value.

The appraised value of our property that is held by Taclon are based on a number of assumptions, which, among others, include the following:

- the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests; and
- the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its value.

If any of the assumptions used by the Property Valuer in reaching the appraised value of our property proves to be inaccurate, the appraised value of our property projects may be materially affected. Unforeseeable changes to regional economic conditions, may also affect the value of our properties. If the actual realisable value of our property is substantially lower than its appraised value, it may have a material adverse effect on our business, results of operations and financial condition.

### **Our Group recorded net current liabilities as at 31 December 2011 and 2012**

During the Track Record Period, as at 31 December 2011 and 2012, our Group recorded net current liabilities of approximately HK\$42.3 million and HK\$79.1 million, respectively. The net current liabilities position of our Group was mainly due to the significant amount of receipts in advance from prepayment by our customers for our coupons and membership card for redemption of our products, which do not require any cash repayment. Details of our coupon and pre-paid membership card sales are set out in the section “Business — Direct Sales — Sales through Redemption of Coupons and

## RISK FACTORS

Stored Value in Pre-paid Membership Cards” and details of our net current liabilities as at 31 December 2011 and 2012 are set out in the section “Financial Information — Liquidity and Capital Structure — Current assets and current liabilities” in this prospectus.

There can be no assurance that we will be able to raise the necessary funds by borrowing from financial institutions to finance our business, operations and capital expenditure in the future. In the event that the financial institutions providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative banking and credit facilities on reasonable terms, our business, financial condition and results of operations will be adversely affected.

### **Risk Relating to our Direct Sales**

**As we lease all of the properties on which our retail shops operate, we are exposed to risks relating to the commercial real estate rental market. We may have disputes with our landlords, and if we cannot secure renewal of existing leases on commercially reasonable terms, our business, results of operations and ability to implement our growth strategy will be adversely affected.**

We lease all the properties on which our retail shops operate. Accordingly, occupancy costs account for a significant portion of our operating expenses. In 2011, 2012 and 2013, property rentals for our retail shop premises amounted to HK\$62.4 million, HK\$74.7 million and HK\$83.4 million, respectively, representing 19.1%, 18.6% and 19.8% of revenue from our Direct Sales during the respective periods. Our Directors believe that, generally, rental costs for premises that are suitable for opening retail shops will continue to increase. The lease agreements for our retail shops typically have an initial term ranging from one to three years. Our substantial operating lease obligations expose us to potentially significant risks, including increasing our vulnerability to adverse economic conditions, limiting our ability to obtain additional financing and reducing our cash available for other purposes.

Many of our lease agreements provide that the rent will increase within the initial term or after the initial term at a fixed rate or at the then prevailing market rate. In addition, many of our leases require us to pay turnover rent, determined as a percentage of our cash sales at our retail shops, as specified by the terms of the relevant lease agreements. Where we do not have an option to renew a lease agreement, we must negotiate the terms of renewal with the lessor, who may insist on an increase in rent and/or a significant modification to the terms and conditions of the lease. In relation to our existing leases, we may have disputes with our landlords in relation to our existing tenancies, with risks of claims or litigation, and we may not be able to renew our existing tenancies.

We compete with other retailers for prime locations in a highly competitive market for retail premises. There is no assurance that we will be able to enter into new lease agreements for attractive locations or renew existing lease agreements on commercially reasonable terms, if at all. Therefore, any inability to obtain leases for desirable retail shop locations on commercially terms could have a material adverse effect on our business and results of operations.

Further, if a lease agreement is renewed at a rate substantially higher than the existing rate or any existing favourable terms granted by the lessor, if any, are not extended, we must evaluate whether renewal on such modified terms is in our interest. If we are unable to renew leases for our retail shop premises, we will have to close or relocate the relevant retail shop, which would lead to loss of sales that the retail shop would have contributed during the period of closure, and could subject us to installation and renovation and other costs and risks. In addition, the revenue and any profit generated at a relocated retail shop may be less than the revenue and profit previously generated at the closed retail shop. Therefore, any inability to renew existing leases on commercially terms could have a material adverse effect on our business and results of operations.

## RISK FACTORS

**Our current retail shop locations may become unattractive, and we may not be able to identify and obtain attractive new locations at reasonable terms, if at all, as we face intense competition with other retailers for quality sites.**

Currently, most of our retail shops in Hong Kong are situated at locations with high pedestrian flow, such as MTR stations and shopping malls in commercial areas or residential estates. The success of any retail shop depends in substantial part on its location. There can be no assurance that our current retail shop locations will continue to be attractive. The economic conditions or demographic patterns of the neighbourhood where our retail shops are located could decline in the future, thus potentially resulting in reduced sales in these locations. Any change in the tenant mix or a change in the anchor tenant of a shopping mall in which our retail shops are located may result in fewer customers visiting the complex and consequently lower the customer traffic flow to our retail shops. Additionally, poor maintenance of the relevant shopping mall or building may also attract less patronage and may adversely affect our business. The competition to procure locations with a relatively high pedestrian traffic is intense. If our current retail shop locations become unattractive and we cannot obtain desirable locations at reasonable terms, our ability to implement our growth strategy may be adversely affected.

**Our revenue from expired pre-paid coupons and stored values in pre-paid membership card may not recur in the future, and any decrease in such revenue will adversely affect our financial position.**

Our pre-paid paper coupons issued in Hong Kong have a validity period ranging from seven to 12 months from the date of purchase, and stored values in the pre-paid membership card issued in Hong Kong can be redeemed within two years following the date of issuance or the date of last transaction, whichever is later. We also offer electronic coupons for certain products which have validity periods of six months or twelve months. To comply with the relevant PRC laws, the pre-paid coupons issued in China generally have a validity period of three years while the stored values in PRC membership cards do not have any expiry date. For details of our coupons and pre-paid membership cards, please see the section “Business — Direct Sales — Sales through Redemption of Coupons and Stored Value in Pre-paid Membership Cards” in this prospectus. For financial reporting purposes, prepayment for coupons and stored values in membership cards which have expired are fully recognised as revenue. In 2011, 2012 and 2013, revenue recognised upon the expiry of coupons and stored value in membership cards issued in Hong Kong amounted to HK\$3.8 million, HK\$12.4 million and HK\$10.3 million, respectively, representing 0.8%, 2.1% and 1.6% of our revenue or 1.2%, 3.1% or 2.4% of our Direct Sales revenue. For 2011, 2012 and 2013, we recorded a forfeiture rate (defined as revenue recognised upon the expiry of pre-paid coupons/membership card values divided by sales of pre-paid coupons and membership cards during the year) of 2.1%, 6.3% and 4.2%, respectively.

Such revenue recognised upon the expiry of coupons and stored values in membership cards may not be maintained at such level or recur in the future. In such case, our financial results may be affected.

### **Risk Relating to our Indirect Sales**

**We depend on sales to distributors and third-party retailers for our Indirect Sales and we lack control over them.**

Our Indirect Sales comprise sales of our products to distributors and third-party retailers. In 2011, 2012 and 2013, revenue from sales to distributors and third-party retailers accounted for 29.8%, 29.4% and 33.1%, respectively, of our total revenue. We expect that sales to distributors and third-party retailers will remain important in the expansion of our Indirect Sales business.



## RISK FACTORS

We have no ownership or managerial control over any of our distributors and third-party retailers. We cannot assure you that our distributors and third-party retailers will at all time strictly adhere to the terms and conditions under our sales and distribution agreements. In addition, most of our distributors and third-party retailers sell products produced by other producers that may compete directly with our products, which may, in certain circumstances, hinder or impact our distributors' and third-party retailers' ability or incentive to maximise sales of our products. If any of our distributors and third-party retailers fails to distribute our products in a timely or effective manner or in accordance with the terms of our sales and distribution agreements, or at all, or if our sales and distribution agreements are suspended, terminated or otherwise expired without renewal, our business, financial condition and results of operations may be materially and adversely affected.

The distributors and third-party retailers may not be able to market and sell our products successfully or maintain their competitiveness as a result of various factors. For example, the third-party retailers may not be able to find suitable locations to operate retail shops and retail points, and they may not be able to renew their leasing contracts with lessors upon expiration, both of which may adversely affect our third-party retailers' operations and competitiveness. If the sales volumes of our products to the consumers are not maintained at a satisfactory level, our distributors and third-party retailers may not place orders for new products with us, or they may reduce orders or ask for discount on purchase price. The loss of our distributors and third-party retailers, reduced orders from them or reduce in sales price, could adversely affect our access to consumers and/or our sales volume and revenue. For more information relating to the movement in the number of our distributors and third-party retailers during the Track Record Period, please see the section "Business — Indirect Sales" in this prospectus.

If we fail to successfully maintain our relationships with a significant number of distributors and third-party retailers in a particular territory or our distributors and third-party retailers fail to operate successfully, our ability to effectively sell our products in that territory could be negatively impacted. These and similar actions could also negatively affect our corporate and product image, possibly resulting in loss of customers and a decline in sales. In addition, our self-operated retail shops and retail points of our third-party retailers selling similar products may result in marketing overlaps, cannibalisation or even competition among these retail shops or retail points. This in turn could result in lower revenue for our retail shops.

### **Some of our distributors and key account customers with significant bargaining power account for a significant portion of our Indirect Sales.**

We rely on third-party retailers, in particular our key account customers such as supermarket and convenience store chains, and large distributors to sell our Long Shelf-life Drinks. Some of these distributors and retailers have significant bargaining power with respect to their purchases from us. These distributors and retailers may be in a position to resist our price increases or demand lower prices. If we do not successfully provide appropriate marketing, pricing and sales incentive to these distributors and retailers, our product availability and sales could be adversely affected. Our OEM customer, a large-scale convenience store chain in Hong Kong which is also one of our major key account customers, also offers its own private label products, including the OEM Products produced by us, that compete with some of our products. The loss of sales of any of our products to a major distributor or retailer could have an adverse effect on our business and results of operation.

### **We may not be able to accurately track the sales and inventory levels of our distributors and third-party retailers for our products, which could cause us to predict sales trends incorrectly.**

Our distributors and third-party retailers may be unable or unwilling to provide us with information in relation to their inventory levels and sales of our products in a timely manner, or at all. As we do not control the inventory and sales data belonging to our distributors and third-party retailers, we rely on information provided to us by our distributors and third-party retailers. As a result,

## RISK FACTORS

our ability to accurately track the sales of our Long Shelf-life Drinks by and the inventory level of our distributors and at the retail points of our third-party retailers is limited. Our sales to distributors and third-party retailers may not be reflective of actual sales trends to consumers, and we may not be able to timely gather sufficient information and data regarding the market demand and consumers' preferences for our products. Failure to accurately track sales and inventory levels of our distributors and third-party retailers and their respective retail points and timely gather market information may cause us to incorrectly predict sales trends and impede us to quickly align our marketing and product strategies to market changes.

### **Risk Relating to our Production**

**Any disruption to the supply, increase in the prices, or quality or safety problems of, our raw materials or packaging materials could adversely affect our production, turnover and profitability.**

Our business requires a number of raw materials and other ingredients including Chinese herbal ingredients, other food and packaging materials and food products. In particular, we rely on our suppliers to supply us with Chinese herbal ingredients. Some of the raw materials used in our products are imported and may be subject to various regulatory requirements, procedures and import duties.

We may experience shortages in the supply of certain raw materials, in particular certain Chinese herbal ingredients, in the future due to various unforeseen events including detrimental climate conditions such as snow storms, heavy rains and droughts, which could materially and adversely affect our production and results of operations. If any supplier is unwilling or unable to provide us with high quality raw materials or ingredients in required quantities and at acceptable prices, we may be unable to find alternative sources at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all. Our inability to find or develop alternative sources could result in delays or reductions in production, product shipments or a reduction in our profit margins.

We also cannot assure you that our suppliers will not intentionally or inadvertently contaminate our raw materials or provide us with sub-standard raw materials that will adversely impact the quality of our products. If we experience any quality or safety problems in relation to our raw materials, our product quality may be adversely affected, our products may have to be recalled from the market and/or we may be subject to product liability claims. Even though we may bring claims against the relevant supplier for damages in such event, we cannot assure you that we will be able to obtain a judgment in favour of us, which may in turn materially and adversely affect our competitive position, reputation and business results.

Furthermore, we are vulnerable to increases in the prices of raw materials and ingredients. The prices of our raw materials and ingredients are determined principally by market forces and our bargaining power against our suppliers. For a discussion of changes in our raw material prices during the Track Record Period, please see the section "Financial Information — Key Factors Affecting Financial Position and Results of Operations of our Group — Other factors relating to our Group's financial position and results of operation — Cost of raw material" in this prospectus. Raw material prices may fluctuate as a result of inflation or climate changes in the future. We may not be able to offset all price increases by raising the prices of our products. Moreover, we may lose our competitive advantage if the prices of our products increase significantly. If the prices of raw materials increase in the future and we cannot pass on such increases to our consumers, we may not be able to maintain our current gross profit margins, and our business and results of operations may be materially and adversely affected.

## RISK FACTORS

**Our operation may be subject to production malfunction, failure in information technology system and shutdown for maintenance, as well as to serious injury to workers from the use of production equipment.**

Our operation is subject to production difficulties such as capacity constraints, mechanical and system failure, construction and equipment upgrade and delay in the delivery of machineries, any of which could cause suspension of production and reduced output. Additionally, we increasingly rely on information technology systems to process, transmit and store electronic information. For example, all of our inventory management system and coupon and membership card system, utilise information technology. Furthermore, a significant portion of the communication between our personnel and our suppliers, distributors, third-party retailers and consumers, and the storage of information of our customers and users of our electronic coupons and membership cards depends on information technology. Our information technology systems may be vulnerable to interruption due to a variety of events beyond our control, including but not limited to, natural disasters, telecommunications failures, computer viruses, hackers, tampering by membership card holders and other security issues, and any such interruption or failures could disrupt our operations and negatively impact our business.

Furthermore, scheduled and unscheduled maintenance programmes may also affect our production output. We carry out routine maintenance of our production equipment and we also carry out major maintenance work annually. Any significant manufacturing disruption could adversely affect our production capacity and ability to fulfil sales orders, which could have an adverse effect on our business and financial performance.

Additionally, any significant accident or harm to our workers caused by the use of our equipment or machinery could interrupt our operations and result in legal and regulatory liabilities which may also affect our financial position.

**Our production facilities are located at a few locations, and any natural disaster or other event affecting these facilities may severely disrupt our business.**

Our principal production facilities are currently located in Tsuen Wan, Hong Kong, Shenzhen (Guanlan) and Dongguan, China; and our planned production facilities are located in Tai Po, Hong Kong and Suzhou, China. We do not maintain backup facilities and do not have a formal business continuity or disaster recovery plan. In the event of an earthquake, fire, drought, flood or other natural disaster, political instability, localised extended outage of critical utilities or transportation systems, terrorist attack or other events that limit our ability to operate these facilities, we may have to incur substantial additional expenses to repair or replace the damaged equipment or facilities, our ability to manufacture and supply products and our ability to meet our delivery obligations to our distributors, third-party retailers and our retail shops would be significantly disrupted, and our relationships with our distributors, third-party retailers and suppliers could be damaged, in which case our business, results of operations and financial condition would be adversely impacted.

**Any failure to maintain effective quality control systems of our production facilities and/or our shops could have a material adverse effect on our business and operations.**

The quality of the food and drinks we sell is critical to our success. Maintaining consistent food and drinks quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our quality control systems and our ability to ensure our employees adhere to those quality control policies and guidelines. Our quality control systems mainly consist of quality control measures for supplies, procurement and production. For more details of our quality control systems, please see the sections “Business — Production” and “Business — Our Supplies” in this prospectus. However, there is no assurance that our quality control

## RISK FACTORS

systems will prove to be effective at all times. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our reputation, business and results of operation.

### **Other Risks Relating to our Business**

**We consider the formulae of certain of our Chinese herbal products to be important trade secrets and know-how, and our ability to compete could be harmed if any such trade secrets and know-how are disclosed to third parties.**

We rely on various know-how and proprietary information, including recipe and formula for certain of our Chinese herbal products, which constitutes trade secrets. We have generally included confidentiality clause in the employment contract of our relevant personnel who have knowledge of our confidential information, and our employee handbook sets forth the employee's obligation to keep confidential our trade secrets and know-how. We are entitled to terminate the employment of any employee who materially breaches his or her obligations under the employee handbook. While we use reasonable efforts, including the foregoing measures, to protect our trade secrets and know-how, our employees, suppliers, contractors or other advisers may unintentionally or wilfully disclose our trade secrets and know-how to our competitors.

The confidentiality clause in the employment contract described above might not provide sufficient protection for our trade secrets and know-how in the event of unauthorised use or disclosure. If our trade secrets and know-how are obtained by a competitor or another third party, we may lose our market share, and our business, financial condition and results of operations may be materially and adversely affected.

**We may be exposed to intellectual property infringement claims by third parties, which could disrupt our business and cause us to incur substantial legal costs, or damage our reputation.**

We may face claims of infringement of third parties' intellectual proprietary rights and claims for indemnification resulting from such infringement. In addition, we may be unaware of intellectual property registrations or applications relating to our products or business operations that may give rise to potential infringement claims against us. There may also be technologies relied on by us that are subject to infringement or other corresponding allegations or claims by third parties.

Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our products or using relevant technology. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us could, among others things, require us to pay substantial damages, develop non-infringing technology, or enter into royalty or licence agreements that may not be available on acceptable terms, if at all, and cease manufacturing, selling or using products that have infringed a third party's intellectual property rights. Any intellectual property claim or litigation, regardless of whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.

**Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel.**

Our future success depends heavily on the continued services of our executive Directors, senior executives and other key employees. In particular, we rely on the expertise, experience and leadership of our executive Directors and our senior management, who play a vital role in our operation. On average, these members of our senior management have over ten years of experience in the food and beverage industry. If one or more of our executive Directors, senior executives or

## RISK FACTORS

other key employees are unable or unwilling to continue in their present positions, we may not be able to replace them promptly, or at all, which may severely disrupt our business and affect our results of operations and future prospects.

Moreover, we may not be able to attract or retain skilled employees or key personnel. The competition for qualified personnel in Hong Kong and China may also drive up our labour costs, which would in turn increase our costs of operations and affect our profitability. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

### **Wrongdoing by our employees and outsiders may harm our business.**

The cash sales in our retail shops are handled by our staff. We may be susceptible to pilferage, theft, fraud, bribery, corruption or even the deliberate contamination of our food and drink products by our staff, our customers or other third parties. Such wrongdoing may harm our reputation, business and operating results. Please see the section “Business — Internal Control and Risk Management Policies — Cash Management” in this prospectus for further information on our internal monitoring systems. We consider our internal control policies and procedures to be adequate. However, we may be unable to prevent, detect or deter all such instances of pilferage, fraud, theft, bribery, corruption, or even the deliberate contamination of our food and beverage products and other misconduct. Such instances committed against our interests, which may include past acts that have gone undetected or future acts, may have a material adverse effect on our business, results of operation and financial condition.

### **We have limited insurance to cover our potential losses and claims.**

As is customary in our industry, only some of our production facilities, machinery and equipment among others, are insured. Certain kinds of losses cannot be insured or insured at a commercially reasonable cost, and our insurance policies are subject to liability limits and exclusions.

In addition, we are not insured against business interruptions resulting from natural disasters such as droughts, floods, earthquakes or severe weather conditions, any suspension or cessation in the supply of utilities and other calamities. Any interruption to our operations, and the resulting losses or damages, could materially adversely affect our business, results of operations and financial condition.

### **Legal disputes or proceedings could expose us to liability, divert our management’s attention and negatively impact our reputation.**

We may at times be involved in potential legal disputes or proceedings during the ordinary course of business operations relating to, among other things, product or other types of liability, employees’ claim, labour disputes or contract disputes that could have a material and adverse effect on our reputation, operation and financial condition. As at the Latest Practicable Date, one of our subsidiaries, Taclon, which we acquired on 26 March 2014, was involved in a potential material litigation in relation to an alleged debt amounting to approximately HK\$10.3 million, the liability for which we deny. For details, please see the section “Business — Legal Proceedings” in this prospectus. If we become involved in material or protracted legal proceedings or other legal disputes in the future, the outcome of such proceedings could be uncertain and could result in settlements or outcomes which adversely affect our financial condition. In addition, any litigation or legal proceedings could incur substantial legal expenses as well as significant time and attention of our management, diverting their attention from our business and operations.

## RISK FACTORS

### **We have previous incidents of non-compliance with the Old Companies Ordinance.**

Some of our subsidiaries incorporated in Hong Kong have on various occasions not fully complied with certain requirements in the Old Companies Ordinance with respect to matters such as matters such as timely adoption of audited accounts. Please see the section “Business — Legal and Regulatory Matters — Incidents of Non-compliance and Remedial Measures” in this prospectus.

If the Hong Kong Companies Registry takes any action against the relevant subsidiaries in our Group, including the assessment of fines or other penalties, our reputation, cash flow and results of operation may be adversely affected. Our Controlling Shareholders have agreed to indemnify us in respect of any liability which might be payable by any member of our Group arising from any possible or alleged violation or non-compliance with any Hong Kong laws or regulations on all matters, including the relevant non-compliance with the Old Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance, arising prior to the date on which the Global Offering becomes unconditional. Such non-compliance may, however, damage our reputation and operation.

### **Our leased premises are subject to certain specific risks.**

As at the Latest Practicable Date, the lease agreements of 15 of our leased properties in China had not been registered with the appropriate government authorities as the relevant lessors were unwilling to co-operate. Our PRC Legal Advisers have advised us that depending on the applicable PRC laws and regulations, the lessor, or both the lessor and lessee, are under an obligation to register and file an executed lease agreement with the appropriate land and real estate administration bureau. We have requested the lessors of the relevant properties to complete, or to cooperate with us to complete, the registration and filing procedures in a timely manner, but we are unable to control whether and when such lessors will do so. As advised by our PRC Legal Advisers, we may be subject to a maximum potential liability of RMB10,000 for each occasion as a result of such non-compliance. We cannot assure you the successful registration of our pending application for our PRC lease agreements and that we will not be subject to any penalty in relation to such failure to register the lease agreements with the relevant land and real estate administration bureau. As at the Latest Practicable Date, the operations of the shops located at the aforesaid properties had not been disrupted due to the non-registration of our lease agreements. However, we also cannot assure you that we will not encounter similar problems in the future with respect to shop premises in China.

As at the Latest Practicable Date, with respect to four of our leased properties in China, the relevant lessor had not provided us with the relevant title ownership certificates evidencing their rights to lease the property to us. As advised by our PRC Legal Advisers, if the lessor of the relevant leased property does not have the requisite rights to lease out the relevant leased property, the relevant lease agreement may be deemed invalid, and, as a result, we may be required to move our operations from the relevant leased property and to relocate our office. We cannot assure you that we will not be subject to business disruptions and losses in the future if we are required to move our operations from the relevant leased property, and our business and results of operations could be adversely affected. Please see the section “Business — Legal and Regulatory Matters” in this prospectus for details.

Our production facility at Dongguan, Guangdong Province in China, which produced 52.9% of the PET bottles we used for production of our products in 2013, is located on a piece of collective land as at the Latest Practicable Date. As advised by our PRC Legal Advisers, under PRC laws, if the lessor does not have the requisite right to build and lease out the relevant lease property, the relevant lease agreements may be deemed invalid, and, as a result, we may be required to move our operations from the relevant leased property and to relocate our production facility. We cannot assure you that we will not be subject to business disruptions and losses in the future if we are required to

## RISK FACTORS

move our operations from the relevant leased property, and our business and results of operations could be adversely affected. Please see the section “Business — Legal and Regulatory Matters” in this prospectus for details.

As at the Latest Practicable Date, two of our office premises in Hong Kong are permitted to be used for factory and metre room for non-domestic use only under the occupation permit relating to the premises but are permitted to be used for commercial purpose and offices under the relevant lease agreements. As advised by our legal advisers as to Hong Kong law, where in the opinion of the Building Authority the premises are not suitable by reason of its construction for its present use, the Building Authority may order the owners of the premises and our Company as the occupier of the premises to discontinue such present use. As a result, we may be required to move our operations from the relevant leased premises and to relocate our office. We cannot assure you that we will not be subject to business disruptions and losses in the future if we are required to move our operations from the relevant leased premises, and our business and results of operations could be adversely affected. Please see the section “Business — Properties — Properties in Hong Kong” in this prospectus for details.

In relation to the potential liability and costs as mentioned in the above non-compliances, our Controlling Shareholders have entered into a Deed of Indemnity in favour of our Company to indemnify our Group from and against, among other things, losses, liabilities and costs incurred by our Group in relation to the above mentioned non-compliances.

### RISKS RELATING TO OUR STRATEGY AND FUTURE PLANS

**Our strategy of expansion of our distribution and retail network may not be as successful as we expect.**

As part of our business strategy, we plan to expand our distribution and retail network to grow our business. We in particular focus on expanding the geographic coverage of our distribution network in China, for details of which please see the section “Business — Our Strategies” in this prospectus. However, the success of our expansion plan is subject to numerous factors including the following:

- the availability of adequate management and financial resources;
- the availability of suitable distributors, third-party retailers and premises for our retail shops;
- our ability to negotiate favourable cooperation terms with our distributors and third-party retailers;
- our ability to hire, train and retain skilled personnel to manage and operate our distribution and retail networks;
- the fluctuation of costs for our raw materials;
- the adaptation of our logistics and other operational and management systems to our expanded distribution and retail networks; and
- market demand for our products.

Furthermore, we may fail to anticipate and adapt to the competitive conditions in the new expanded distribution and retail networks that are different from those in our existing markets. Accordingly, we may not be able to achieve our expansion goals or effectively integrate new

## RISK FACTORS

distributors, third-party retailers and retail shops into our existing network. If we encounter any difficulty in expanding our distribution and retail networks, our growth prospects may be adversely affected, which could in turn have a material adverse effect on our business, financial condition and results of operations.

**If our expansion plan proves to be unsuccessful, or if we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected.**

We expect that we will have to incur certain pre-operating expenses of our new shops for our retail shop expansion plan in Hong Kong and China. In the event that our expansion plan proves to be unsuccessful, our overall cash flow position, as well as our profitability, may be materially and adversely affected. We believe that our current cash and cash equivalents, anticipated cash flow from operations and the proceeds from this Global Offering will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months from the date of this prospectus. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing of our new shop opening, investment in new shops and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing by selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in dilution of the shareholding of our existing Shareholders. The incurrence of indebtedness will result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our expansion plans and operations or our ability to pay dividends. If we fail to service the debt obligations or become unable to comply with any debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

Our ability to obtain additional capital on acceptable terms is subject to a variety of factors and uncertainties, some of which are beyond our control, including the general economic and capital market conditions, credit availability from banks or other lenders, investors' confidence in us, the performance of the food and beverage market in general, and our operating and financial performance in particular. We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all. In the event that financing is not available or is not available on terms acceptable to us, our business, results of operations and growth prospects may be adversely affected.

**Opening of new retail shops could result in fluctuations in our financial performance.**

Our operating results have been, and in the future may continue to be, significantly influenced by the timing of opening and performance of new retail shops (often affected by factors beyond our control), including initially higher operating costs. New retail shops also incur expenses before opening such as rental expenses. We opened 23 new shops in Hong Kong during the Track Record Period. We expect that opening of each new retail shop in Hong Kong will require, on average, capital expenditure of approximately HK\$0.8 million. The total planned capital expenditure in 2014, 2015 and 2016 for opening our new retail shop in Hong Kong is expected to be approximately HK\$18 million, HK\$24 million and HK\$30 million. We also intend to allocate from the net proceeds from the Global Offering approximately HK\$4.0 million for opening ten new retail shops in Guangzhou and approximately HK\$5.0 million for opening ten new retail shops in Shanghai in the coming twelve months. Please see the risk factor in the paragraph "Our retail operation in China has been loss-making during the Track Record Period and our new retail network strategy in China may not be successful, which may adversely affect our operation and financial position" above in this section for the relevant risks.



## RISK FACTORS

Our progress in opening new shops from period to period may occur at an uneven rate. Accordingly, the number and timing of new retail shop opening has had, and may continue to have, impact on our profitability. As a result, our results of operations may fluctuate significantly from period to period and comparison of different periods may not be meaningful. Our results for a given fiscal period are not necessarily indicative of results to be expected for any other fiscal period.

### RISKS RELATING TO OUR INDUSTRY

**Our business and reputation may be affected by product liability claims, litigation, customer complaints, product tampering, food-borne illnesses, health threats, quality control concerns or adverse publicity relating to our products or the Chinese herbal food and drink industry.**

Like other consumer product manufacturers, our sale of food and drink products involves an inherent risk of our products being found to be unfit for consumption or cause illness. Products may be rendered unfit for consumption due to raw materials or product contamination or degeneration, failure of our employees to adhere to mandated procedures and requirements, illegal tampering by unauthorised third parties or other problems arising during the various stages of the procurement, production, transportation and storage processes. The occurrence of such problems may result in customer complaints, fines, penalties or adverse publicity causing serious damage to our reputation and brand, as well as product liability claims, other legal disputes and loss of revenues. Under certain circumstances, we may be required to recall our products. Even if a situation does not necessitate a product recall, we cannot assure you that product liability claims or other legal disputes will not be asserted against us as a result. A product liability or other judgment against us, or a product recall, could have a material adverse effect on our business, financial condition or results of operations.

Like other food and drink businesses, our business is susceptible to food-borne illnesses. Despite our effort in implementing stringent quality control standards, we cannot assure you that our quality control measures are able to effectively preventing all food-borne illnesses. Furthermore, our reliance on third-party raw material and food suppliers means that food-borne illness incidents could be caused by our suppliers outside of our control and may affect multiple locations of our operations. New illnesses may develop in the future, or diseases with long incubation periods could arise that could give rise to claims or allegations on a retroactive basis. Reports in the media of instances of food-borne illnesses or health threats could negatively affect our industry overall and us in particular, impacting our sales, forcing the closure of some of our retail shops and conceivably having significant impact on our results of operations. This risk exists even if it were later determined that the illness or health threat in fact was not caused by our products.

In addition, adverse publicity about health and safety concerns, whether unfounded or not, may discourage consumers from buying our products. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused personal injury or illness could adversely affect our reputation and our corporate and brand image. If consumers were to lose confidence in our brand and reputation, we could suffer long-term or even permanent declines in our sales and results of operation.

**We face intense competition, and if we fail to compete effectively, we may lose market share and our results of operation may be adversely affected.**

The Chinese herbal drinks, jelly and soups market, and general food and beverage industry, in Hong Kong and China is highly competitive, and we expect it to become even more competitive. Some of our competitors may have been in business longer than we have and may have substantially greater financial, research and development, marketing and other resources than we have. We cannot assure you that our current or potential competitors will not provide products comparable or superior to those we provide or adapt more quickly than we do to evolving industry trends or changing market requirements. It is also possible that there will be consolidation in the food and

## RISK FACTORS

beverage industry among our competitors or alliances may develop among competitors and these alliances may rapidly acquire significant market share, or that some of our competitors may commence production of products similar to those we sell.

Furthermore, competition may lead our competitors to increase substantially their advertising expenditures and promotional activities or to engage in irrational or predatory pricing behaviour. We cannot assure you that we will be able to compete effectively against current and future competitors. We cannot assure you that third parties will not actively engage in activities, whether legal or illegal, designed to undermine our brand and product quality or to influence consumer confidence in our products. Increased competition may result in price reduction and loss of market share, any of which could have a material adverse impact on our profit margin.

### RISKS RELATING TO THE PRC

**We face uncertainty with respect to the indirect transfers of equity interests in our PRC resident enterprises through transfers made by our non-PRC holding companies.**

The State Administration of Taxation (SAT) issued the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) ([2009] 698), (“**Circular 698**”), on 10 December 2009, which was made retrospectively effective from 1 January 2008. Pursuant to Circular 698 and SAT announcement [2011] 24, except for the purchase and sale of equity in a PRC resident enterprise through a public securities market, where a non-PRC resident enterprise indirectly transfers its equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company (an “**Indirect Transfer**”), and such overseas holding company’s jurisdiction: (i) has either an effective tax rate of less than 12.5% or (ii) does not tax on such transaction, the non-PRC resident enterprise shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the non-PRC holding company if it lacks a reasonable commercial purpose and is established for the purpose of avoiding PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

If the relevant PRC tax authorities hold that our overseas holding company’s existence does not have commercial purpose and the Indirect Transfer was conducted for the purpose of avoiding PRC tax, or any such Indirect Transfer is otherwise taxable under Circular 698, we may be required to pay PRC withholding tax for such Indirect Transfer. However, since the implementation of Circular 698 vary across different tax authorities, it remains unclear how the PRC tax authorities will examine the commercial purpose of non-PRC holding companies and Indirect Transfer generally. Notwithstanding this, according to Circular 698, the reporting and tax obligation, if any, remains with the transferor.

**The future performance of our PRC operation is dependent on the Chinese economy and the Chinese consumer market in particular, and historical results of operation may not be indicative of our future performance.**

As at the Latest Practicable Date, we had 25 retail shops in China. We plan to open at least ten new retail shops in each of Guangzhou and Shanghai in the coming twelve months. Accordingly, our business, financial condition, results of operations and prospects could be affected by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation

## RISK FACTORS

of resources. Customers' tendency to become more cost-conscious as a result of an economic slowdown or decreases in disposable income may reduce our customer traffic or average revenue per customer, which may adversely affect our revenue.

The success of our business in China depends on the condition and growth of the Chinese consumer market, which in turn depends on macro-economic conditions and individual income levels in China. We cannot assure you that projected growth rates of the Chinese economy and the Chinese consumer market will be realised under the current economic situation. Any future slowdowns or declines in the Chinese economy or consumer spending could adversely affect our business, operating results and financial condition. We believe that consumer spending habits could be adversely affected during a period of recession in the economy or that uncertainties regarding future economic prospects could also affect consumer spending habits, any of which may have an adverse effect on certain enterprises operating within the consumer and retail sectors, including us. The consumer and retail market could be affected by the changing operating conditions in China. For instance, the reduction in tariffs on foreign products after the liberalisation of the Chinese market and further entry of international brands may intensify the competition in the Chinese consumer and retail market. This could have an adverse impact on our business, financial condition and results of operations.

Furthermore, our operating results may fluctuate due to a number of additional factors, many of which are beyond our control. Therefore, our operating results for future periods are difficult to predict, and prior results are not indicative of results to be expected in future periods. We believe that period-to-period comparisons of our results of operations are not indicative of our future performance. As such, there is a risk that we will not be able to achieve or maintain profitability or our historical results.

### **Uncertainties with respect to the PRC legal system could materially and adversely affect us.**

Our business in China is conducted through our PRC subsidiaries. Thus, our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes and regulations. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because published court decisions are limited in number and are non-binding, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may be subject to fines and other penalties applied retroactively for violations of policies and rules enacted in the future based on acts that are currently permissible. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

### **As our Company is incorporated in the Cayman Islands, you may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions against us and the laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong.**

We are a company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Islands Company Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of

## RISK FACTORS

the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company's minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of Cayman Islands company law is set out in Appendix IV to this prospectus.

Although we will be subject to the Listing Rules and the Takeovers Code upon the Listing, our Shareholders will not be able to bring actions on the basis of violations of the Listing Rules, which do not have the force of law in Hong Kong, and must rely on the Stock Exchange to enforce the Listing Rules. Moreover, the Takeovers Code also does not have the force of law in Hong Kong and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

In addition, since we are incorporated under the laws of the Cayman Islands and our corporate affairs are governed by the laws of the Cayman Islands, it may not be possible for you to bring an action against us or against our Directors or officers based upon Hong Kong laws in the event that you believe that your rights as a shareholder have been infringed.

### **Governmental control of currency conversion may affect the value of your investment.**

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive our revenues from our PRC operations in RMB. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval, registration or filing from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, our operation and financial position may be adversely affected.

### **Fluctuations in exchange rates may result in foreign currency exchange losses and may have adverse effect on your investment.**

The change in value of Renminbi against the Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. Since 1994, the conversion of Renminbi into other currencies, including Hong Kong dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand and referenced to a basket of currencies. Since the adoption of this new policy, while the value of Renminbi against the Hong Kong dollar has fluctuated daily, the overall value of RMB has generally appreciated against the Hong Kong dollar. The PRC government has since made and may in the future make further adjustments to the exchange rate system.

In respect of our operations in China, our revenues and costs are denominated in RMB. Any significant revaluation of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position.

## RISK FACTORS

**PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC operating subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

In utilising the proceeds of the Global Offering in the manner described in the section “Future Plans and Use of Proceeds” in this prospectus, as an offshore holding company of our PRC operating subsidiaries, we may make loans, additional capital contributions to our PRC subsidiaries or a combination thereof. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by our Company to our subsidiaries in China, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local counterpart.

In addition, any capital contributions to our PRC subsidiaries must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of this Global Offering and to capitalise our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

### **RISKS RELATING TO THE GLOBAL OFFERING**

**There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained.**

Prior to the Global Offering, no public market for our Shares existed. Following the completion of the Global Offering, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure you that an active trading market for our Shares will develop or be sustained after the Global Offering. In addition, we cannot assure you that our Shares will trade in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by agreement among the Sole Global Coordinator (on behalf of the Underwriters) and our Company, and is not indicative of the market price of the Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of Shares could be materially and adversely affected.

**The trading price of our Shares may be volatile, which could result in substantial losses to you.**

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the trading price performance of other companies in similar food and beverage business based in Asia may affect the trading price of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income, cash flow, profits and dividends could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

## RISK FACTORS

**Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall when the trading of our Offer Shares begins.**

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be about four business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price or value of our Shares could fall when trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**The sale or availability for sale of substantial amounts of our Shares could adversely affect their trading price.**

Sales of substantial amounts of our Shares in the public market after the completion of the Global Offering, or the perception that such sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares.

The Shares owned by our existing Shareholders are subject to certain lock-up periods. There can be no assurance that they will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. We cannot predict what effect, if any, significant future sale will have on the market price of our Shares.

**Because the Offer Price of our Shares is higher than our net tangible book value per Share, purchasers of our Shares in the Global Offering will experience immediate dilution.**

If you purchase our Shares in the Global Offering, you will pay more for your Shares than our net book value on a per Share basis. As a result, investors of our Shares in the Global Offering will experience an immediate dilution in the net tangible asset value and our existing Shareholders will receive an increase in the pro forma adjusted combined net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their interest if the Sole Global Coordinator (on behalf of the International Underwriters) exercises the Over-allotment Option or if we obtain additional capital in the future through equity offering.

We have adopted the Share Option Schemes, details of which are set out in “Appendix V — Statutory and General Information — E. Share Option Schemes” to this prospectus. Issuance of Shares pursuant to the exercise of the options granted or to be granted under the Share Option Schemes will result in an increase in the number of Shares in issue after the issuance and thereby will cause dilution to the percentage of ownership of the existing Shareholders and the earnings per Share, and may cause dilution to the net asset value per Share.

**The costs of the Pre-IPO Share Option Scheme will adversely affect our results of operations and any exercise of the options granted may result in a dilution of our Shareholders’ shareholdings.**

For the purpose of recognising the contribution of certain senior management and employees of our Group and as an incentive for their future performance, we adopted the Pre-IPO Share Option Scheme, details of which are set out in “Appendix V — Statutory and General Information — E. Share Option Schemes — Pre-IPO Share Option Scheme” to this prospectus. Based on the valuation carried out by our valuer, the fair value of the share options granted under the Pre-IPO Share Option Scheme is expected to be HK\$14.4 million, which amount will be substantially recognised as share-based compensation expenses in 2014.

## RISK FACTORS

The issue of Shares on any exercise of the Pre-IPO share options in the future will result in a reduction in the percentage ownership of the Shareholders in our Company and may result in a dilution in the earnings per Share and net asset value per Share, as a result of the increase in the number of Shares outstanding after such issuance.

**You should not place undue reliance on facts, forecasts and other statistics in this prospectus relating to the economy and our industry.**

Certain facts, forecasts and other statistics in this prospectus relating to the economy and the food and drink industries on an international, regional and specific country basis have been collected from materials from official government sources or other unofficial sources. While we have exercised reasonable care in compiling and reproducing such information and statistics, we cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Underwriters or any of its affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from these sources. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate. Statistics, industrial data and other information relating to the economy and the industry derived from sources used in this prospectus may not be consistent with other information available from other sources and therefore, investors should not unduly rely upon such facts, forecasts and statistics while making investment decisions.

**Our financial results are expected to be affected by the expenses in relation to the Global Offering.**

Our financial results will be affected by the expenses in relation to the Global Offering. The total estimated listing-related expenses (excluding underwriting commission) in connection with the Global Offering comprising principally professional fees are expected to amount to approximately HK\$28.6 million. For the year ended 31 December 2013, we had incurred expenses of HK\$7.8 million in connection with the Global Offering, of which HK\$5.9 million are accounted for as our administrative expenses for 2013 with the remaining amount of HK\$1.9 million recorded as prepayment in the accounts. By the completion of the Global Offering, we expect to incur additional listing-related expenses of approximately HK\$26.2 million among which, an estimated amount of approximately HK\$15.6 million is to be recognised as our administrative expenses and the remaining estimated listing-related expenses is expected to be charged to equity upon the Listing. Therefore, our financial results for the year ending 31 December 2014 will be affected by the expenses in relation to the Global Offering.

**Forward-looking statements contained in this prospectus are subject to risks and uncertainties**

This prospectus contains certain statements that are “forward-looking” and uses forward looking terminology such as “anticipate”, “estimate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would”, and “will”. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. Please see the section “Forward-looking Statements” in this prospectus.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Future (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in the section "Structure of the Global Offering" in this prospectus, and the procedures for applying for the Hong Kong Offer Shares are set out in the section "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares" in this prospectus and on the relevant Application Forms.

### **UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants in the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see the section "Underwriting" in this prospectus.

### **RESTRICTIONS ON OFFER AND SALE OF SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, and is deemed by his acquisition of Hong Kong Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.



## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

No action has been taken to permit an offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in China or the United States.

### **ELIGIBILITY FOR CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. You should seek the advice of your stockbroker or other professional advisor for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of and permission to deal in the Shares in issue and to be issued pursuant to the Global Offering and the Capitalisation Issue (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted pursuant to the Share Option Schemes).

Save as disclosed in this prospectus, no part of the Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought in the near future.

### **SHARE REGISTRAR AND THE STAMP DUTY**

All Shares issued by us pursuant to applications made in the Hong Kong Public Offering will be registered on our share register of members to be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Our principal register of members will be maintained by our principal share registrar in the Cayman Islands, Codan Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Dealings in the Shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

### **STABILISATION AND OVER-ALLOTMENT**

In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the Global Offering, we intend to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Sole Global Coordinator (on behalf of the International Underwriters) within 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, we may be required to issue and allot up to an aggregate of 23,700,000 Shares (in aggregate representing 15% of the total number of the Shares initially available under the Global Offering) at the Offer Price to cover over-allocation in the International Offering.

Further details with respect to stabilisation and the Over-allotment Option are set out in the sections “Structure of the Global Offering — International Offering — Over-allotment Option” and “Structure of the Global Offering — Stabilisation Action” in this prospectus.

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The application procedure for the Hong Kong Offer Shares is set out in the section “How to Apply for Hong Kong Offer Shares and Employee Reserved Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including their respective conditions, and the Over-allotment Option, are set out in the section “Structure of the Global Offering” in this prospectus.

### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be, or have been, converted into Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi amounts into Hong Kong dollars have been made at the rate of RMB0.78 to HK\$1.00.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

Name	Residential Address	Nationality
------	---------------------	-------------

#### Executive Directors

Mr. Tse Po Tat (謝寶達)	Flat A, 31/F Block 3, The Riverpark 8 Che Kung Miu Road Shatin New Territories Hong Kong	Chinese
-------------------------	---	---------

Ms. Wong Pui Chu (黃佩珠)	Flat B, 68/F Tower North, Chelsea Court 100 Yeung Uk Road Tsuen Wan New Territories Hong Kong	Chinese
---------------------------	--	---------

Mr. Kwan Wang Yung (關宏勇)	G/F, House 398K Sheung Tsuen Wing Hing Wai Pat Heung, Yuen Long New Territories Hong Kong	Chinese
-----------------------------	---	---------

Dr. Szeto Wing Fu (司徒永富)	28 Second Street Section L, Fairview Park Yuen Long New Territories Hong Kong	Chinese
-----------------------------	---	---------

#### Non-executive Director

Mr. Tse Po Shing (謝寶勝)	Flat H, 25/F Tower 3, Bellagio 33 Castle Peak Road Tsuen Wan New Territories Hong Kong	Chinese
---------------------------	---	---------

#### Independent non-executive Directors

Mr. Kiu Wai Ming (喬維明)	Flat B, 21/F Block 4, Pacific View 38 Tai Tam Road Hong Kong	Chinese
---------------------------	---	---------

Professor Sin Yat Ming (洗日明)	Flat A, 33/F Block 3, Lake Silver 559 Sai Sha Road Ma On Shan New Territories Hong Kong	Chinese
---------------------------------	--	---------

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Mr. Andrew Look (陸東)	House 7, Customs Pass 18 Fei Ngo Shan Road Fei Ngo Shan Kowloon Hong Kong	Chinese

Further information is disclosed in the section “Directors and Senior Management” in this prospectus.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor</b>	Crosby Securities Limited 5/F, AXA Centre, 151 Gloucester Road Wanchai Hong Kong
<b>Sole Global Coordinator</b>	Crosby Securities Limited 5/F, AXA Centre, 151 Gloucester Road Wanchai Hong Kong
<b>Joint Bookrunners and Joint Lead Managers</b>	Crosby Securities Limited 5/F, AXA Centre, 151 Gloucester Road Wanchai Hong Kong  Shenyin Wanguo Capital (H.K.) Limited Level 19 28 Hennessy Road Hong Kong
<b>Co-Lead Managers</b>	DBS Asia Capital Limited 17/F, The Center 99 Queen's Road Central Hong Kong  Halcyon Securities Limited 11/F, 8 Wyndham Street Central Hong Kong
<b>Legal advisers to our Company</b>	<i>As to Hong Kong law:</i> Deacons 5th Floor, Alexandra House 18 Chater Road Central Hong Kong  <i>As to PRC law:</i> Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road Beijing 100025, China  <i>As to Cayman Islands law:</i> Conyers Dill & Pearman (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal advisers to the Sole Sponsor  
and the Underwriters**

*As to Hong Kong law:*  
Paul Hastings  
21–22/F, Bank of China Tower  
1 Garden Road  
Central, Hong Kong

*As to PRC law:*  
Global Law Office  
Excellence Century Center  
Fuhua 3 Road, Futian District  
Shenzhen 518048  
China

**Auditors and reporting accountant**

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

**Property valuer**

Jones Lang LaSalle Corporate Appraisal  
and Advisory Limited  
6th Floor, Three Pacific Place  
1 Queen's Road East  
Hong Kong

**Compliance adviser**

Crosby Securities Limited  
5/F, AXA Centre  
151 Gloucester Road  
Wanchai  
Hong Kong

**Receiving bank**

DBS Bank (Hong Kong) Limited  
16/F The Center  
99 Queen's Road  
Central  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands
<b>Head office and principal place of business in Hong Kong under Part 16 of the Companies Ordinance</b>	12/F., ADP Pentagon Centre 98 Texaco Road Tsuen Wan New Territories Hong Kong
<b>Company's website address</b>	<b><a href="http://www.hungfooktong.com">www.hungfooktong.com</a></b> <i>(information on this website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Tsang Kai Ming ( <i>HKICPA, FCCA</i> ) 12/F., ADP Pentagon Centre 98 Texaco Road Tsuen Wan New Territories Hong Kong
<b>Audit committee</b>	Mr. Andrew Look ( <i>Chairman</i> ) Mr. Kiu Wai Ming Professor Sin Yat Ming
<b>Remuneration committee</b>	Professor Sin Yat Ming ( <i>Chairman</i> ) Mr. Kiu Wai Ming Ms. Wong Pui Chu
<b>Nomination committee</b>	Mr. Kiu Wai Ming ( <i>Chairman</i> ) Mr. Kwan Wang Yung Dr. Szeto Wing Fu Mr. Andrew Look Professor Sin Yat Ming
<b>Strategy and Development committee</b>	Mr. Kwan Wang Yung ( <i>Chairman</i> ) Ms. Wong Pui Chu Dr. Szeto Wing Fu
<b>Authorised representatives</b>	Mr. Kwan Wang Yung G/F, House 398K Sheung Tsuen Wing Hing Wai Pat Heung, Yuen Long New Territories Hong Kong  Dr. Szeto Wing Fu 28 Second Street Section L, Fairview Park Yuen Long New Territories Hong Kong

## CORPORATE INFORMATION

**Principal bankers**

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

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

**Principal share registrar and transfer  
office in the Cayman Islands**

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

**Hong Kong Share Registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor  
Hopewell centre  
183 Queen's Road East  
Wanchai, Hong Kong



## INDUSTRY OVERVIEW

*This section contains certain information which is derived from official government resources and a commissioned report, the Ipsos Report, prepared by Ipsos which is an independent third party. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, the information has not been independently verified by us, or any of our affiliates or advisors, nor by the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their affiliates or advisors or any other party involved in the Global Offering other than Ipsos with respect to the information contained in the Ipsos Report. No representation is given as to the accuracy of the Ipsos Report. After taking reasonable care, our Directors confirm that there has been no adverse change in the market information since the date of the Ipsos Report up to the date of this prospectus.*

### I. INTRODUCTION

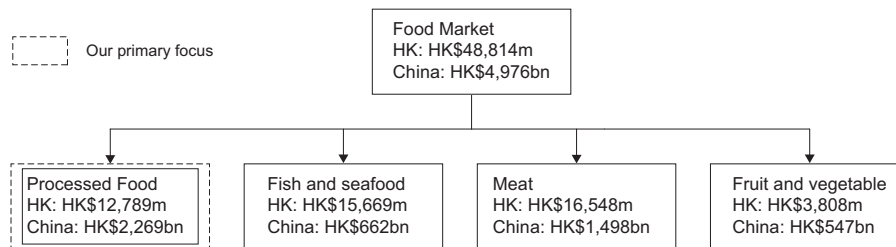
We are principally engaged in the production and sales of Chinese herbal drinks and other drink products, Chinese-style soups and tortoise herbal jelly under our reputable and award winning “鴻福堂 (Hung Fook Tong)” brand. We market our products through two principal channels: (i) **Direct Sales:** direct cash sales and sales through coupons and pre-paid membership cards of mostly Fresh Products and some selected Long Shelf-life Drinks at our retail shops, some direct cash sales at other locations in Hong Kong and China, and (ii) **Indirect Sales:** sales of mainly Long Shelf-life Drinks and some selected Fresh Products principally to distributors and third-party retailers in Hong Kong, China and overseas. Our Fresh Products accounted for approximately 70.9% of our revenue in 2013 and are primarily comprised of Chinese herbal and non-herbal drinks, Chinese-style soups and tortoise herbal jelly and other food products. On the other hand, our Long Shelf-life Drinks accounted for 27.5% of our revenue in 2013 and comprise a variety of Chinese herbal drinks and non-herbal drinks prepackaged in seal capped bottles. The sales of our drinks products amounted to HK\$377.2 million and that of our food products amounted to HK\$267.9 million in 2013.

### II. OVERVIEW OF THE FOOD AND BEVERAGE MARKET IN HONG KONG AND CHINA

We mainly operate in the food and beverage market in Hong Kong and China and our principal products mainly fall within the processed food segment, (i.e. our Chinese soups and tortoise jelly products) and Chinese herbal drinks segment (i.e. our Chinese herbal drinks products) of the food and beverage market.

According to the Ipsos Report, the food market can be categorised into four major segments: fish and seafood, meat, fruit and vegetable, and processed food. Chinese soup and tortoise jelly products are classified as processed food. The total retail sales value of the food market for Hong Kong and China for 2013 was approximately HK\$48,814 million and HK\$4,976 billion, respectively, and the processed food segment accounted for approximately 26.2% and 45.6% of such markets, respectively. The diagrams below set forth the retail sales value breakdown for the food market:

**Retail sales value of the food market in China and Hong Kong in 2013**



Source: Ipsos Report, Census and Statistics Department, Hong Kong, National Bureau of Statistics of China

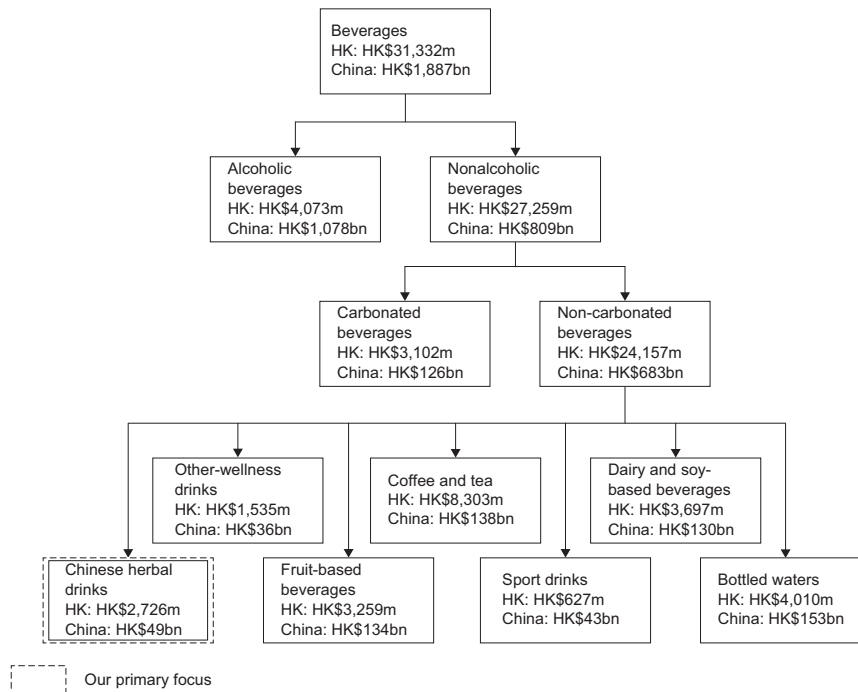
# INDUSTRY OVERVIEW

*Notes:*

- (1) Retail sales values of food and beverage represent the sales values generated from both retail and trading businesses and do not include those sales in restaurants, hotels, fast food shops and other stores that serve light refreshments.
- (2) "m" means million, and "bn" means billion

Beverage products were mainly divided into alcoholic and non-alcoholic beverages. Non-carbonated beverage within the non-alcoholic beverage segment can be further classified into seven segments: bottled water, dairy and soy-based beverage, sport drinks, coffee and tea, fruit-based beverage, Chinese herbal drinks, and other wellness drinks. According to the Ipsos Report, the Hong Kong beverage market had a total retail sales value of approximately HK\$31,332 million in 2013, of which the Chinese herbal drinks segment accounted for approximately 8.7%. In respect of the China beverage market, the non-alcoholic beverage market is highly fragmented with no single segment accounting for more than 9%. Chinese herbal drinks have a 2.6% share within the beverage market in China in 2013. The diagrams below set forth the retail sales value breakdown by product category for the beverage market:

### Retail sales value of the beverage market in Hong Kong and China in 2013



*Sources:* Ipsos Report, Census and Statistics Department, Hong Kong; and Food and Agriculture Organisation of United Nations, National Bureau of Statistics of China

*Notes:*

- (1) Retail sales values of food and beverage represent the sales values generated from both retail and trading businesses and do not include those sales in restaurants, hotels, fast food shops and other stores that serve light refreshments.
- (2) "m" means million, and "bn" means billion

### III. LATEST DYNAMICS AND DRIVERS OF FOOD AND BEVERAGE MARKET IN HONG KONG AND CHINA

Our revenue generated in Hong Kong and China accounted for 97.3%, 97.6% and 97.5% of our total revenue in 2011, 2012 and 2013, respectively. In 2013, we generated 80.2% and 17.3% of our revenue from Hong Kong and China, respectively. Therefore, we are affected by the following dynamics and trends of the food and beverage market in Hong Kong and China:

#### **Hong Kong**

##### ***Increasing recognition of Chinese herbal products***

The government of Hong Kong has introduced various policies and initiatives to promote the development of the traditional Chinese medicine industry in recent years. Consumers in Hong Kong are increasingly aware and receptive of the benefits and efficacy of Chinese medicine as well as Chinese herbs. This facilitated the growth in demand for food and beverage products with Chinese herbal ingredients.

##### ***Growing health consciousness***

With the support of various government campaigns to promote healthy lifestyles, there is a growing consumer preference for food and beverage that can provide sufficient nutrition and/or promote healthiness. Consumers are increasingly health-conscious and gradually shift from consumption of meat to other food groups, such as organic products, fruits and vegetables. There is also an ongoing shift in demand away from carbonated beverages towards other beverages products that are perceived to have nutritional value or capable of improving health.

##### ***Changing lifestyle of consumers***

Prolonged working hours and hectic lifestyle and have driven time constrained consumers away from spending time and effort on preparation or consumption of a formal meal towards consumption of ready-to-cook food and convenience food. Substantial market demand has been created for quick and convenient meal solutions, especially packaged food and beverage products which are marketed as healthy and nutritional value or with natural ingredients.

#### **China**

##### ***Wide acceptance of Chinese herbal products***

The use of Chinese herbs is deeply embedded in the Chinese culture. Herbal tea, with its perceived medicinal properties, maintained its strong ground against carbonated drinks. In China, it is perceived that herbal teas can boost health and even heal or prevent illness. For instance, during the outbreak of severe acute respiratory syndrome in Southern China in 2003, the sales volume of Wang's Fortune Tea recorded a phenomenal increase of 400% from previous years, according to the Ipsos Report.

##### ***Robust economic growth and affluent consumers***

With the support of government policy and economic reform, the economy of China has experienced a robust growth in the past decade. Improved disposable income levels in China enable consumers to increase their spending on food and beverage products. Increasingly affluent and educated consumers in China also began opting for healthier food and beverage products.

## INDUSTRY OVERVIEW

### IV. HONG KONG CHINESE HERBAL DRINKS, SOUPS AND TORTOISE JELLY MARKET

We primarily focus in the Hong Kong food and beverage market and our core strength lies in the Chinese herbal drinks, soups and tortoise jelly (“**Chinese herbal DSJ**”) market. We generated 86.2%, 85.0% and 80.2% of our total revenue in 2011, 2012 and 2013, respectively, from our sales in Hong Kong.

#### **Overview**

The consumption of Chinese herbal drink, soup and tortoise jelly dates back to China’s dynastic period when they were regarded as an essential regime diet and applied widely for medical purpose. The tradition of consuming Chinese herbal beverage and soup continued until modern times, especially in the southern part of China. Modern manufacturers of Chinese herbal food and beverage products emphasises the use of traditional Chinese formula with natural herbal ingredients as a marketing strategy to attract customers nowadays.

The Chinese tradition of consuming Chinese herbal DSJ products exerts great influence on Hong Kong consumers. Chinese soups are considered as an important part of a proper meal and consuming tradition Chinese herbal products are generally viewed as a natural and healthy way to improve general health by consumers in Hong Kong. Tortoise jelly, which is mainly made of tortoise plastron and a mixture of Chinese herbs, is perceived to be mild in nature, good for skin by treating ‘Yin’ deficiency and have detoxifying effect. It is well-received among the Asians and treated as a relief for itching skin and acnes.

Chinese DSJ products are principally sold at retail stores and distributed through third-party channels such as supermarkets, hotel, restaurants, grocery stores. We adopt an effective two-channels model with Direct Sales and Indirect Sales channels, which accounted for 76.5% and 21.5%, respectively, of our total revenue from Hong Kong in 2013.

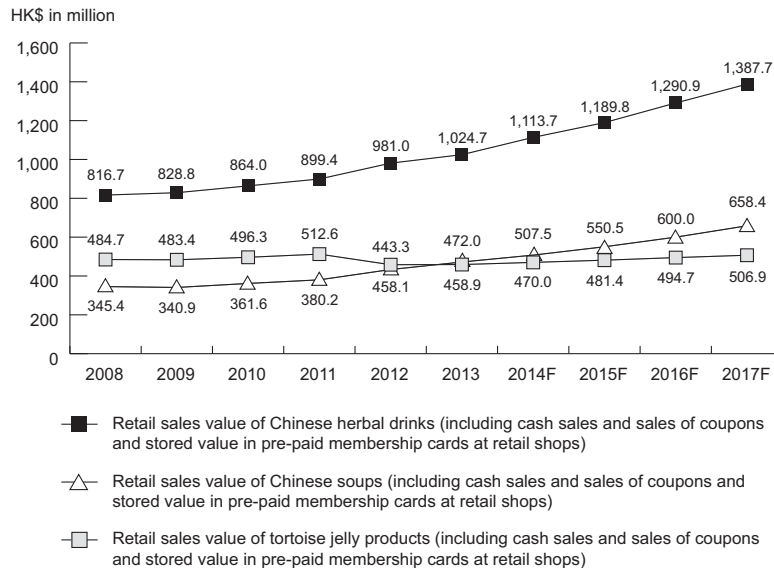
#### **Sale of Chinese herbal DSJ products in retail stores**

##### ***Retail sales value of Chinese herbal DSJ products in retail stores***

Our Direct Sales comprised mainly of cash sales at our retail shops and sales through redemption of coupons and pre-paid membership card. Our Direct Sales in Hong Kong amounted to HK\$395.9 million in 2013. According to the Ipsos Report, the retail sales value of Chinese herbal DSJ products have been growing since 2008 and the growth is expected to continue from 2014 to 2017. From 2008 to 2017, retail sales value for Chinese herbal drinks, soup and tortoise jelly is estimated to increase by a CAGR of 6.1%, 7.4% and 0.5% respectively. This is mainly attributable to the rising health consciousness and increasing demand for convenience food and beverage among time constrained consumers in Hong Kong. The following chart sets forth the retail sales value of Chinese herbal DSJ products through retail stores in Hong Kong from 2008 to 2017.

## INDUSTRY OVERVIEW

### Retail sales value of Chinese herbal DSJ products through retail stores in Hong Kong



Source: Ipsos Report, Census and Statistics Department, Hong Kong

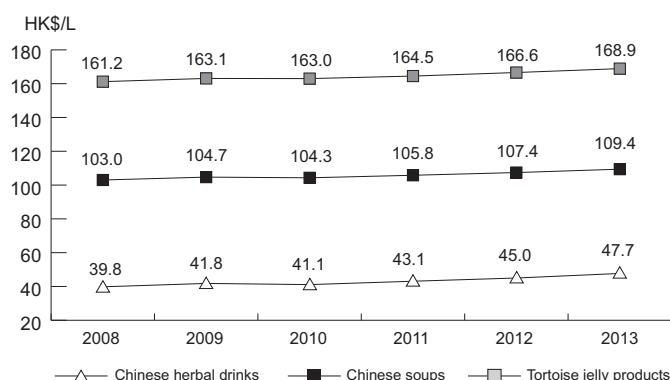
Some of the retailers, including our Group, sell pre-paid coupons to its customers to complement their cash sales. A pre-paid coupon is a voucher or code stored in a card entitling consumers to a product or a special deal. Customers purchasing pre-paid coupons from Chinese herbal DSJ products retailers can redeem goods from their retail stores or other collaborative outlets at a equivalent value or at a discounted rate. Pre-paid coupons are effective sales tools which promotes repeated visits of consumers and are usually sold in sets with discounted price of a specific product. Pre-paid coupons with discounted rates can also attract new customers for the retailers. The prepaid coupons sold by the retailers of Chinese herbal DSJ products in Hong Kong are typically valid for approximately 12 months. As customers are not entitled to redeem any products after the expiry date of the pre-paid coupons, it is an industry norm for the retailers to recognise the forfeited income as part of their business operations. The level of forfeited income for market player ranges from approximately 0.4% to 4.0% of their total revenue from retail sales and from approximately 1.0% to 7.0% of their sales of coupons, according to the Ipsos Report.

#### **Price trend for Chinese Herbal DSJ products in retail store**

The average retail price for Chinese Herbal DSJ products in retail store has shown a steady upward trend since 2008 which is in line with the growth in retail sales value in retail stores. The increase in average retail price is driven by the growing demand and inflation. In 2013, the average retail prices of Chinese herbal drink, soup and tortoise jelly sold in retail stores are estimated to be HK\$47.7/litre, HK\$109.4/litre and HK\$168.9/litre respectively. The following chart sets forth the average retail price for Chinese herbal DSJ products in retail stores from 2008 to 2013.

## INDUSTRY OVERVIEW

### Average retail price for Chinese herbal DSJ products in retail stores



Source: Ipsos Report

### ***Retailers of Chinese Herbal DSJ products***

Our Group were the top among the retailers of Chinese herbal DSJ products in Hong Kong in terms of number of retail stores and revenue in 2013. As the Latest Practicable Date, we have strong retail sales network of 97 self-operated retail stops in Hong Kong, including nine street shops, which are located on street level with shop front on the streets, 38 shopping mall shops, which are located inside shopping malls or arcades in commercial complexes, residential estates or other buildings, and 50 MTR shops which are located in MTR stations. We believe such locations are convenient for our target customers, and we benefit from the high pedestrian flow and the promotion and marketing activities of the shopping malls.

According to Ipsos, there are two types of Chinese herbal DSJ products retailers in Hong Kong: (i) traditional non-chained retailers which are often run as family business and sell products with unique formula; and (ii) chained retailers<sup>(1)</sup> which focus on the diversity of products type and brand promotion and often have sophisticated management system and diversified sales channel on top of retail stores, including supermarkets and convenient stores, online trading and couponing. We were the largest chained retailer in the Hong Kong Chinese herbal DSJ market in 2013, according to the Ipsos Report, with strong brand recognition and well established sales network.

Chained retailers constantly expand their retail network in recent years to boost sales by reaching a larger number of consumers who are likely to buy convenience food and beverage products at stores nearby. Chained retailers are becoming more prominent in the Chinese herbal DSJ market and their number of stores significantly are growing by a CAGR of 11.5% from 2008 to 2013. Non-chained retailers have been languishing and record consecutive decrease in number of stores.

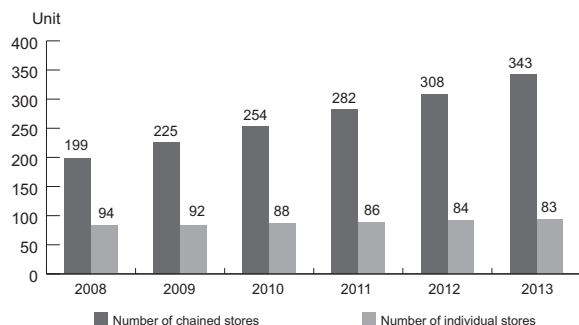
Although the total number of retail stores experienced an overall growth at a CAGR of 7.8% from 293 stores to 426 stores, the number of retailers remains stable with a slight increase of three retailers to 86 retailers from 2008 to 2013. According to Ipsos, this is attributable to entry barriers including (i) dominance of leading domestic players who are familiar with the tastes and preference of the local consumers and; (ii) the increasing rent for retail premises as a result of the resilient real estate market in Hong Kong. As discussed in the paragraph “Competitive landscape of retailers for Chinese herbal DSJ products in Hong Kong” below in this section, the top five leading retailers are domestic players and accounted for 80.3% of the market share in 2013.

Note:

(1) Retailers which own more than 3 branches are considered as chained store retailers.

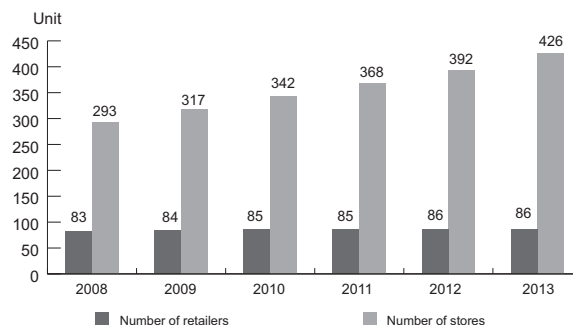
## INDUSTRY OVERVIEW

### Number of chained and individual retail stores for Chinese Herbal DSJ products in Hong Kong



Source: Ipsos Report

### Number of retailers and retail stores for Chinese Herbal DSJ products in Hong Kong

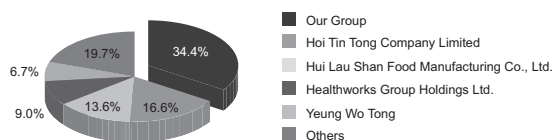


Source: Ipsos Report

### Competitive landscape of retailers for Chinese herbal DSJ products in Hong Kong

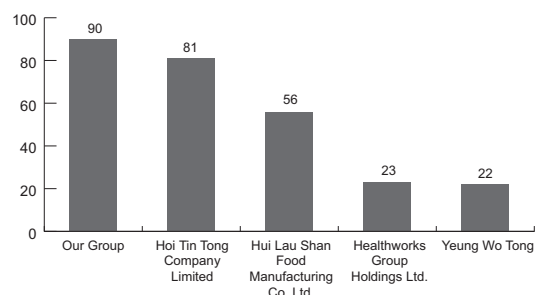
Our Group was the top retailer of Chinese herbal DSJ products in Hong Kong with the largest number of retail stores and market share of approximately 34.4% in 2013, according to the Ipsos Report. Domestic players dominate the Chinese herbal DSJ market in Hong Kong with the competitive advantage of understanding of the tastes and preferences of local consumers. The top five leading players are local retailers which have adopted chained stores business model. Retailers of the Chinese herbal DSJ products compete primarily on the number and location of retail stores as well as product quality and variety. Retailers adopting a chained store model increase their revenue by establishing a reputable brand and extensive retail store network in areas with high pedestrian flow. They also tend to centralise their production line to control product quality. Some players differentiate their products by offering innovative and unique products. The following charts set forth the market share<sup>(1)</sup> and number of stores of the major retailers of Chinese herbal DSJ products in Hong Kong in 2013:

#### Market share of the major retailers of Chinese herbal DSJ products in Hong Kong in 2013



Source: Ipsos Report

#### Number of Stores in Hong Kong held by top five Chinese herbal DSJ product retailers in Hong Kong in 2013



Source: Ipsos Report

### Sale of Chinese herbal DSJ products in third party distribution channels

#### Distribution model

Chinese herbal DSJ products are often distributed via third party channels including supermarkets, convenience store, hotel and restaurant and grocery stores. Some brand owners of Chinese herbal DSJ products with their own retail stores may choose to distribute their

Note:

(1) Sales of coupons and stored value pre-paid membership card is not included.

## INDUSTRY OVERVIEW

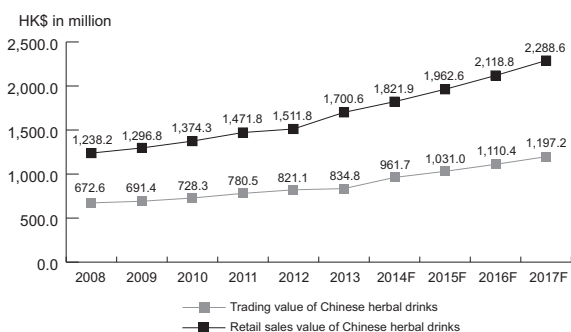
products via third party channels to capture additional market demand. Brand owners of Chinese herbal DSJ products leverage on the extensive network of third party distribution channels to reach a wider coverage of consumers. Our Indirect Sales are primarily made to (i) third party retailers, including our key-account customers, which comprise supermarket and convenience store chains, and other third party retailers; and (ii) distributors, which is consistent with common industry practice.

Supermarket is the leading distribution channel for Chinese herbal drinks as well as other kind of drinks in Hong Kong in 2013, accounting for over 60% of retail sales across the beverage industry. Regular promotions coupled with the wide array of product offering are key factors behind the channel's dominance. Our sales to our key-account customers, including supermarkets, in Hong Kong were HK\$58.6 million, HK\$69.5 million and HK\$70.3 million for 2011, 2012 and 2013, respectively, and contributed to 67.1%, 65.9% and 63.1% of sales revenue generated from our Indirect Sales in Hong Kong.

### ***Trading and retail sales value for sale of Chinese herbal DSJ products in third party distribution channels***

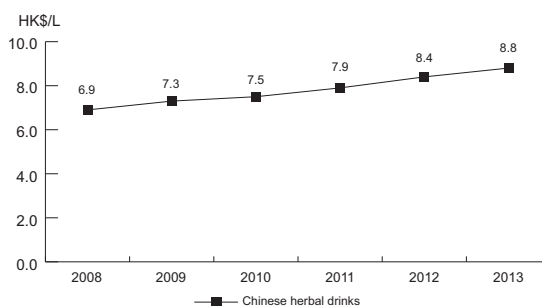
The diagrams below illustrate the trading value, retail sales value, the average wholesale price of the Chinese herbal drinks sold through third party distribution channels recorded sustained growth since 2008. The trading value for Chinese herbal drinks is expected to increase from approximately HK\$961.7 million to HK\$1,197.2 million from 2014 to 2017.

**Total trading value and retail sales value of Chinese herbal drinks**



Source: Ipsos Report

**Average wholesale price of Chinese Herbal DSJ products in Hong Kong**



Source: Ipsos Report

### ***Competitive landscape of Chinese herbal DSJ products players in terms of sales through third party distribution channels in Hong Kong***

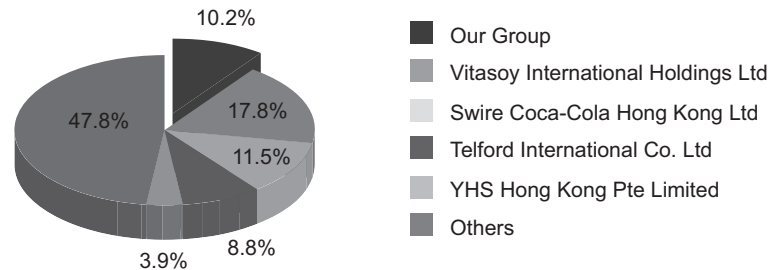
According to the Ipsos Report, the aggregate revenue of Chinese DSJ products players in terms of sales through third party distribution channels in Hong Kong in 2013 was approximately HK\$1,095.0 million. Our Group was the third largest Chinese herbal DSJ products player in terms of sales through third party distribution channels in Hong Kong in terms of revenue with a market share of approximately 10.2% in 2013, according to the Ipsos Report. Vitasoy International Holdings Ltd and Swire Coca-Cola Hong Kong Ltd were the two largest players with market share of 17.8% and 11.5% respectively in 2013. The distribution sales market for Chinese herbal DSJ products is a concentrated market with the top five players accounting for about half of the market share. Potential entrants to the distribution sales market for Chinese



## INDUSTRY OVERVIEW

herbal DSJ products face fierce competition from existing dominant players which comprise multinational players as well as local players with well established brand recognition and product offerings. The following charts set forth the market share of the Chinese herbal DSJ products players in terms of sales through third party distribution channels in Hong Kong in 2013:

**Market share of Chinese herbal DSJ products players in terms of sales through third party distribution channels in Hong Kong in 2013**



Source: Ipsos Report

### V. CHINESE HERBAL DSJ MARKET IN CHINA

Although China was not significant to us during the Track Record Period, we believe it represents a huge market potential for us in the future as our brand gains market awareness and recognition.

We commenced our retail operation in China in 2007 by opening our first self-operated retail shop in Shenzhen, followed by additional shops along the lines of the Metro systems in Guangzhou and in Foshan. Our direct retail sales in China accounted for less than 5% of our total revenue during the Track Record Period.

As a result of our continuous effort, we have achieved significant growth in our distribution business in China during the Track Record Period. Revenue of our Indirect Sales in China increased from HK\$42.7 million for 2011 to HK\$85.9 million for 2013, representing a CAGR of 41.8%. The Major Guangdong Cities remain as the most important sales region to us in China, contributing 93.0%, 85.6% and 72.8% of the revenue generated by our Indirect Sales in China in 2011, 2012 and 2013, respectively.

#### Distribution channels

In China, individual herbal tea shops are the traditional channels for sales of Chinese herbal drinks and tortoise jelly but their development have been hindered by the lack of control on product quality and safety, high rental cost and tightened government regulation. According to the Ipsos Report, sales of Chinese herbal DSJ products in herbal tea shop only accounted for approximately 4.0% of the value share in 2012. On the contrary, there is a growing popularity for pre-packed Chinese herbal DSJ products sold in supermarket, restaurant and grocery in China with lower selling price and stronger branding.

According to the Ipsos Report, among the different distribution channels, grocery stores and kiosks had the largest value share of approximately 60% in 2012. Supermarkets, convenience stores and department stores accounted for approximately 11.0% while hotels and restaurants accounted for 29.0% of the total retail sales value in China in 2012.

# INDUSTRY OVERVIEW

## Trading and retail values and wholesale price

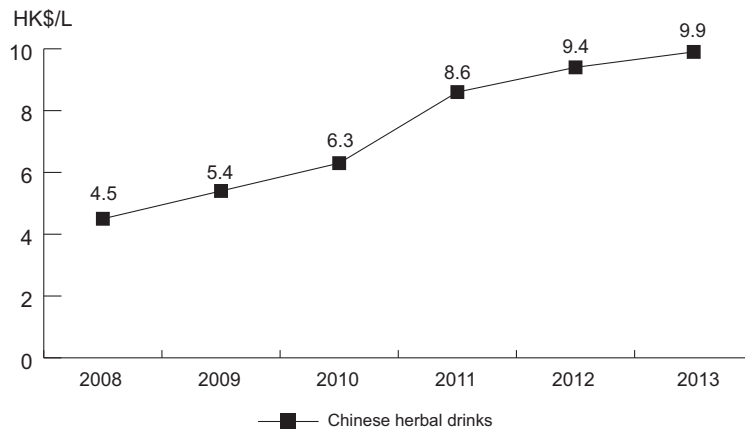
According to the Ipsos Report, the trading value of Chinese herbal drinks trading business have a robust growth in China at a CAGR of approximately 20.0% from 2008 to 2017. The growth in retail sales values growth and wholesale price is in line with the growth in trading value in both the market in Guangdong Province and in China market as a whole. During the Track Record Period, we focused our retail business and Long Shelf-life Drinks distribution business in the Guangdong Province. Approximately 27.3% of the overall trading value of Chinese herbal drinks in China in 2013 was attributable to the Guangdong Province. The trading value for these products in the Guangdong market also displayed a positive growing trend at a CAGR of approximately 12.1%, which is relatively slower than the growth of the overall market in China. Going forward, we intend to enhance and expand our existing distribution network in both the Guangdong Province as well as other areas in which we have already started distributing our products but yet to build up a strong distribution network and market presence, in particular in major cities in Eastern and Southern China. The following charts set forth the total trading value, total retail value and wholesale price of Chinese herbal drinks in China and Guangdong Province.

**Total trading value and retail sales value of Chinese herbal drink in China and Guangdong Province**



Source: Ipsos Report

**Average wholesale price of Chinese Herbal drinks**



Source: Ipsos Report

## INDUSTRY OVERVIEW

### Competitive landscape of the Chinese Herbal DSJ market in China

According to the Ipsos Report, the brand “Wang’s Fortune Tea” manufactured by Jiaduobao group is the top player with dominant market position in the Chinese Herbal DSJ market in China. Brands including Wang’s Fortune Tea, Heqizheng and Baoqingtang are under the Jiaduobao group. For southern China, major brands for Chinese herbal drinks comprise Wangzenglong Tea, Zhenglao Tea, Xuqixiu Tea and Pangaoshu Tea. All of them are traditional brands with strong regional presence in southern China but have not captured significant market share nationwide. Market players mainly compete on the basis of successful branding built by significant marketing and advertising activities and extensive distribution network.

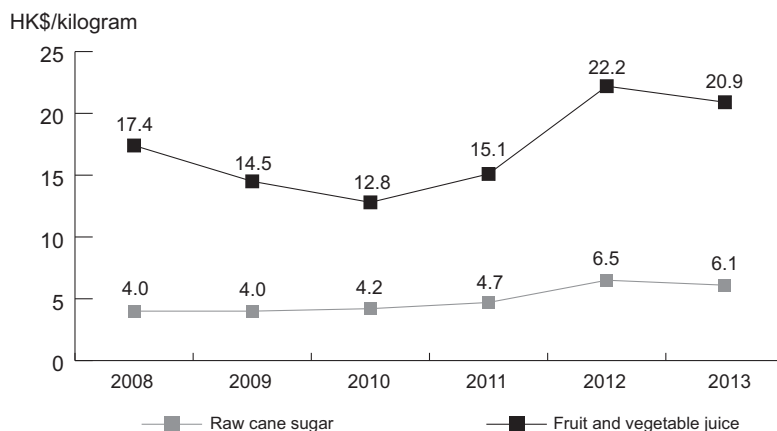
We commenced our Indirect Sales business and our retail operation in China in 2002 and 2007 respectively. We are relatively new to the China market as compared with the existing major players. However, we believe our deep knowledge of traditional Chinese herbal culture and emphasis on product quality and safety can effectively enhance our market penetration in China. We place great emphasis on our modern production system and employ stringent product quality control and safety standards over the entire production process.

### VI. PRICE TRENDS OF OUR KEY RAW MATERIALS

Sugar, sugarcane and fruit juices are our major raw materials in terms of purchase volume during the Track Record Period. There is no data available to us on the relevant price of sugar in public domain. From 2008 to 2013, Hong Kong has imported around 65.9 million kilograms of raw sugar cane, with 83.7% of which was imported from China. The sugar cane purchase price has increased at a CAGR of approximately 8.8% from HK\$4.0/kg in 2008 to HK\$6.1/kg in 2013 due to strong domestic demand in China, according to Ipsos.

Demand for fruit juice has been increasing, despite the slowdown of trade value in 2008 due to the global financial crisis and in 2011, resulted from high inflation rates. Trade value and unit price of fruit juice is forecasted to grow as a result of strong consumer demand in healthy drinks and food products. The unit price of single fruit juice has increased from HK\$17.4/kg in 2008 to HK\$20.9/kg in 2013 at a CAGR of approximately 3.7%.

The following chart sets forth the average price for sugarcane and fruit and vegetable juice:



Source: IPSOS Report, Census and statistics department, Hong Kong

Notes:

(1) Raw cane sugar is defined as raw sugar made by cane, in solid form and no flavour or colouring is added

## INDUSTRY OVERVIEW

- (2) Unit price of fruit and vegetable juice refers to any single fruit juice other than orange juice, grapefruit juice, pineapple juice, grape juice and apple juice.

### VII. FUTURE OPPORTUNITIES AND CHALLENGES FOR CHINESE HERBAL DSJ MARKET

According to the Ipsos Report, it is expected that there will be an increase in demand for ongoing expansion of product variety and launch of innovative products in the future. The consumer preference for the use of natural and healthy ingredients in the Chinese herbal DSJ products will also be growing. Market players will expand their marketing and promotion scales to improve their brand image and product appeal.

On the other hand, the competition among players in the Chinese herbal DSJ products market will become more intense and the operation cost will continue to rise. Market players also face challenges in rebuilding consumer's confidence in tortoise jelly products which is ruined by the mouldy tortoise jelly scandal in 2013.

### VIII. ABOUT THE IPSOS REPORT

We have commissioned Ipsos, an Independent Third Party to prepare a report on Chinese herbal food and beverage products at a fee of HK\$358,000. Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos is the third largest research company in the world which employs approximately 16,000 personnel worldwide across 85 countries.

In compiling the Ipsos report, Ipsos has conducted primary and secondary market research including: (i) consultation with our Group; (ii) desk research and (iii) trade interviews with associations and experts, retailers, supermarkets, producers, brand owners and distributors of Chinese herbal DSJ products. According to Ipsos, information gathered was cross-checked to ensure accuracy with the multi level research methodology and analysed using its in-house analysis models and techniques.

The following assumptions are used in the Ipsos Report:

- The economy is assumed to maintain a steady growth across the forecast period; and
- it is assumed that there will be no external shock such as financial crisis or the wide outbreak of diseases to affect the demand and supply of Chinese herbal DSJ products in the Hong Kong during the forecast period.

The following parameters are considered in Ipsos' market sizing and forecast model:

- GDP and Inflation growth rate in Hong Kong;
- population growth and rental rate in Hong Kong; and
- average expenditure per household from 2007 to 2013.

The research conducted by Ipsos may be affected by the accuracy of the assumptions and choice of parameters as stated above.

## APPLICABLE LAWS AND REGULATIONS

### OVERVIEW

During the Track Record Period, the business of our Group was principally based in Hong Kong and China, and therefore we were subject to the relevant laws and regulations of Hong Kong and China. This section summarises the major aspects of the principal laws, rules and regulations that are directly relevant and material to our operations in these jurisdictions.

### Hong Kong

#### *Public Health and Municipal Services Ordinance*

The legal framework for food safety control in Hong Kong is set out in Part V of the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) (the “**PHO**”) and the relevant sub-legislations thereunder. The PHO requires the manufacturers and sellers of food to ensure that their products are fit for human consumption and comply with the requirements in respect of food safety, food standards and labelling.

As our principal business is the production, marketing, sale and distribution of food and drink products in Hong Kong, we are subject to the regulation of the PHO.

Section 50 of the PHO prohibits the manufacturing, advertising and sale in Hong Kong of food or drugs that are injurious to health. Anyone who fails to comply with this section commits an offence which carries a maximum penalty of HK\$10,000 and three months’ imprisonment. Section 52 of the PHO provides that, subject to the defences in section 53 of the same ordinance, if a seller sells to the prejudice of a purchaser any food or drug which is not of the nature, substance or quality of the food or drug demanded by the purchaser, the seller shall be guilty of an offence which carries a maximum penalty of HK\$10,000 and three months’ imprisonment.

According to section 54 of the PHO, any person who sells or offers for sale any food intended for, but unfit for, human consumption, or any drug intended for use by human but unfit for the purpose, shall be guilty of an offence. The maximum penalty for contravention of section 54 is a fine of HK\$50,000 and six months’ imprisonment.

Section 61 of the PHO provides that it shall be an offence for any person who gives with any food or drug sold by him or displays with any food or drug exposed for sale by him any label which falsely describes the food or drug or is calculated to mislead as to its nature, substance or quality. Further, it shall also be an offence if any person publishes or is a party to the publication of an advertisement falsely describing any food or drug or is likely to mislead as to the nature, substance or quality of any food or drug.

The Food and Environmental Hygiene Department (the “**FEHD**”) is responsible for the enforcement of the relevant laws and regulations. It may take samples of all kinds of food products at their points of entry to Hong Kong and may prohibit or restrict importation of a food product. It also has the power to examine any food which is intended for human consumption, and seize and remove such food or its packaging if it appears that such food is unfit for human consumption.

#### *Light Refreshment Restaurant Licence*

Any person operating a restaurant selling only light refreshments in Hong Kong is required to obtain a light refreshment licence from the FEHD under the PHO and the Food Business Regulation (Chapter 132X of the Laws of Hong Kong) (the “**FBR**”) before commencing the relevant business.

## APPLICABLE LAWS AND REGULATIONS

It is provided under section 31(1) of the FBR that no person shall carry on or cause, permit or suffer to be carried on any restaurant business except with a restaurant licence. FEHD will consider whether certain requirements in respect of health, hygiene, ventilation, gas safety, building structure and means of escape are met before issuing a restaurant licence. The FEHD will also consult the Buildings Department and the Fire Services Department in accessing the suitability of premises for use as a restaurant, and the fulfilment of the Buildings Department's structural standard and the Fire Services Department's fire safety requirement are considered. The FEHD may grant provisional light refreshment restaurant licences to new applicants who have fulfilled the basic requirements in accordance with the FBR pending fulfilment of all outstanding requirements for the issue of a full light refreshment restaurant licence.

A provisional light refreshment restaurant licence is valid for a period of six months or a lesser period and a full light refreshment restaurant licence is generally valid for a period of one year, both subject to payment of the prescribed licence fees and continuous compliance with the requirements under the relevant legislation and regulations. A provisional light refreshment restaurant licence is renewable on one occasion and a full light refreshment restaurant licence is renewable annually.

Section 35 of the FBR provides that any person who is in contravention of section 31(1) of the FBR shall be guilty of an offence. The maximum penalty is a fine of HK\$50,000 (together with a daily fine of HK\$900 where it is a continuing offence) and imprisonment for six months.

### *Food Factory Licence*

It is provided under section 31(1) of the FBR that no person shall carry on or cause, permit or suffered to be carried on any food factory business except with a food factory licence. The FEHD may grant a provisional food factory licence to a new applicant who has fulfilled the basic requirements in accordance with the FBR pending fulfilment of all outstanding requirements for the issue of a full food factory licence.

A provisional food factory licence is valid for a period of six months or a lesser period and a full food factory licence is valid generally for a period of one year, both subject to payment of the prescribed licence fees and continuous compliance with the requirements under the relevant legislation and regulations. A provisional food factory licence is renewable on one occasion and a full food factory licence is renewable annually.

Section 35 of the FBR provides that any person who is in contravention of section 31(1) of the FBR shall be guilty of an offence. The maximum penalty is a fine of HK\$50,000 (together with a daily fine of HK\$900 where it is a continuing offence) and imprisonment for six months.

### ***Water Pollution Control Ordinance***

#### *Water Pollution Control Licence*

In respect of our operation in Hong Kong, we are required to obtain water pollution control licence from the Environmental Protection Department (the "EPD") prior to any discharge of trade effluents under the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) (the "WPCO"). Under sections 8(1) and 8(2) of the WPCO, a person who discharges (i) any waste or polluting matters into waters of Hong Kong in a water control zone; or (ii) any matter into any inland waters in a water control zone which tends (either directly or in combination with other matter which has entered those waters) to impede the proper flow of the water in a manner leading or likely to lead to substantial aggravation of pollution, commits an offence and where any such matter is discharged from any premises, the occupier of the premises also commits an offence. Under sections 9(1) and 9(2) of the WPCO, a person who discharges any matter into a communal sewer or communal drain into a water control zone commits an offence and where any such matter is discharged into a

## APPLICABLE LAWS AND REGULATIONS

communal sewer or communal drain in a water control zone from any premises, the occupier of the premises also commits an offence. Under section 12(1)(b) of the WPCO, a person does not commit an offence under section 8(1), 8(2), 9(1) or 9(2) of the WPCO if the discharge or deposit in question is made under, and in accordance with, a water pollution control licence. A water pollution control licence is granted with terms and conditions specifying requirements relevant to the discharge, such as the discharge location, provision of wastewater treatment facilities, maximum allowable quantity, effluent standards, self-monitoring requirements and keeping records.

A water pollution control licence may be granted for a period of not less than two years and generally five years, subject to payment of the prescribed licence fee and continuous compliance with the requirements under the relevant legislation and regulations. A water pollution control licence is renewable.

Section 11 of the WPCO provides that any person who contravenes with sections 8(1), 8(2), 9(1) or 9(2) commits an offence. The maximum potential liability is imprisonment for six months and (a) for a first offence, a fine of HK \$200,000; (b) for a second or subsequent offence, a fine of HK \$400,000, and in addition, if the offence is a continuing offence, to a fine of HK \$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

### ***Food and Drugs (Composition and Labelling) Regulations***

Food and Drugs (Composition and Labelling) Regulations (Chapter 132W of the Laws of Hong Kong) (the “**FDR**”) which are under the PHO, contains provisions for the advertising and labelling of food.

Regulation 3 of the FDR provides that the manufacturing of foods and drugs shall be up to the standards as specified under schedule 1 of the FDR. Any person who advertises for sale, sells or manufactures for sale any food or drug which does not conform to the relevant requirements as to composition prescribed in schedule 1 to the FDR commits an offence and is liable to a fine of HK\$50,000 and to imprisonment for six months.

Regulation 4A of the FDR requires all pre-packaged food and products sold (except for those listed in schedule 4 to the FDR) to be marked and labelled in the manner prescribed in schedule 3 to the Food and Drugs Regulations. Schedule 3 contains labelling requirements in respect of stating the product's name or designation, ingredients, “best before” or “use by” date, special conditions for storage or instruction for use, manufacturer's or packer's name and address, and count, weight or volume. Additionally, the schedule also includes requirements on the appropriate language or languages for marking or labelling pre-packaged food. Contravention of those requirements may result in a conviction carrying a maximum penalty of HK\$50,000 and six months imprisonment.

In accordance with Regulation 4B of the FDR, generally pre-packaged food sold by our Group should be marked or labelled with its energy value and nutrient content in the manner prescribed in part 1 of schedule 5 to the FDR, and nutrition claims, if any, made on the label of the product or in any advertisement for the product should comply with part 2 of schedule 5 to FDR. Contravention of those requirements may result in a conviction carrying a maximum penalty of HK\$50,000 and six months imprisonment.

### ***Trade Description Ordinance***

Food products sold in Hong Kong are subject to the Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the “**TDO**”). The TDO has been recently amended in July 2013 to expand certain existing provisions, including the prohibition of false trade description in respect of goods and services in the course of trade, prohibition on certain unfair trade practices and the introduction of a civil, compliance-based enforcement mechanism.

## APPLICABLE LAWS AND REGULATIONS

Section 2 of the TDO provides that a trade description (including fitness for purpose, performance and manufacturing details) which is false to a material degree; or though not false, is misleading, that is to say, likely to be taken for a trade description of a kind that would be false to a material degree, would be regarded as false trade description.

Section 7 of the TDO provides that it is an offence for any person, in the course of his trade or business, to apply a false trade description to any goods; or supply or offer to supply any goods to which a false trade description is applied. It is also an offence for any person to have in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied.

To amount to a false trade description, the falsity of the trade descriptions has to be to a material degree. Trivial errors or discrepancies in trade descriptions would not constitute an offence. What constitutes a material degree will vary with the facts.

Contravention of the prohibitions in the TDO is an offence, with a maximum penalty of up to HK\$500,000 and five years' imprisonment. However, the TDO also provides regulators with the ability to accept (and publish) written undertakings from businesses and individuals not to continue, repeat or engage in unfair trade practices in return of which regulator will not commence or continue investigations or proceedings relating to that matter. Regulators will also be empowered to seek an injunction against businesses and persons engaging in unfair trade practices or who have breached an undertaking.

### ***Chinese Medicine Ordinance***

The Chinese Medicine Ordinance (Chapter 549 of the Laws of Hong Kong) (the "CMO") legislation regulates the practice, use, manufacture and trading of Chinese medicine in Hong Kong.

The Chinese Medicine Council is a statutory body established under the CMO to carry out the implementation of the regulatory measures for Chinese medicines. Pursuant to the provisions of the CMO, the Chinese Medicine Practitioners Board and the Chinese Medicines Board (the "CMB") were established to implement and oversee various control measures on practitioners and Chinese medicines through a system of registration and licensing under the direction and supervision of the Chinese Medicine Council. The Department of Health is responsible for enforcing the provisions under the CMO.

Health food products which contain Chinese medicines are regulated under the CMO. The system of control over Chinese medicines includes two main areas, namely Chinese herbal medicines and proprietary Chinese medicines. Our Group only focuses on the production and sales of products with Chinese herbal medicines and not proprietary Chinese medicines.

### *Chinese herbal medicines*

Chinese herbal medicine means any of the substances specified in Schedule 1 or 2 to the CMO. The control over Chinese herbal medicines is to ensure that the Chinese medicines sold are fit for human consumption.

### *Labelling of Chinese medicines*

Under section 142 of the CMO, a wholesale dealer in Chinese herbal medicines shall attach to or print on any container of Chinese herbal medicine a label or cause a label to be so attached or printed in the prescribed manner.



## APPLICABLE LAWS AND REGULATIONS

### *Licensing of Chinese Medicines Traders*

Under the CMO, Chinese medicines traders who wish to carry on a business in the retail of Chinese herbal medicines or wholesale of Chinese herbal medicines shall first obtain a licence issued by the CMB.

Chinese medicines traders who have carried on a business in the retail or wholesale of Chinese herbal medicines in Hong Kong on or before 3 January 2000 shall apply for the licence under the transitional arrangements as stated in the CMO.

In respect of Chinese medicine, the relevant licence to our operation is the retailer licence in Chinese herbal medicines. For the purpose of retailer licences for Chinese herbal medicines, “retail” means the selling of any Chinese herbal medicines to a person who obtains the same other than for the purpose of wholesale and “dispense” means the preparation and supply of Chinese herbal medicines on or in accordance with a prescription given by a registered or listed Chinese medicine practitioner. Applicants who retail or dispense Chinese herbal medicines must first obtain a retailer licence in Chinese herbal medicines.

Any person who is found guilty of an offence under the CMO shall, unless a penalty is otherwise expressly provided, be liable to a fine at HK\$100,000 and to imprisonment for two years.

### ***Import and Export Ordinance***

According to the Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) (the “**IEO**”), any person who wishes to import or export any of the Chinese herbal medicines specified in Schedule 1 or Schedule 2 to the CMO must first apply for an import or export licence.

Applications for import or export licences of Chinese herbal medicines are handled by the Chinese Medicines Division of the Department of Health.

Any person importing or exporting of the aforesaid Chinese herbal medicines without an import or export licence commits an offence under the IEO. The person who is found guilty shall be liable to an unlimited fine and to imprisonment for seven years.

The import and export of certain types of Chinese herbal is subject to import and export control under the IEO and the regulations made under it, as explained above. According to sections 6C(3) and 6D(3) of the IEO, the maximum penalty for the offence of importing or exporting without a licence is a fine of HK\$500,000 and imprisonment for two years.

## **PRC**

### ***Foreign Investment Policies***

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was adopted by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “**NPC**”) on 29 December 1993 and with effect from 1 July 1994. It was last amended on 28 December 2013 and with effect from 1 March 2014. Under the Company Law, companies are generally classified into two categories: limited liability companies and companies limited by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall prevail.

## APPLICABLE LAWS AND REGULATIONS

Investment in China conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the “**Catalogue**”), which was amended and promulgated by the Ministry of Commerce (商務部) (the “**MOC**”) and the National Development and Reform Commission (國家發展和改革委員會) (the “**NDRC**”) on 24 December 2011. The Catalogue, as amended, became effective on 30 January 2012 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign invested industries, restricted foreign invested industries and prohibited foreign invested industries. Any industry not listed in the Catalogue is a permitted industry. According to the Catalogue, the business activities that we engage in are classified as “permitted” and “encouraged” foreign invested industries. For the details of business activities that we engage, please see the section “Business” in this prospectus.

The Law of the People’s Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) (the “**Wholly Foreign-owned Enterprises Law**”), which was promulgated by the NPC on 12 April 1986 and amended on 31 October 2000, and the Detailed Implementing Rules for the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) (the “**Detailed Implementing Rules for the Wholly Foreign-owned Enterprise Law**”), which was promulgated by the Ministry of Foreign Economic Relations and Trade (對外經濟貿易部) on 12 December 1990 and last amended on 19 February 2014 are the fundamental legal basis for Chinese government to supervise whole foreign-owned enterprises. According to the Whole Foreign-owned Enterprises Law and the Detailed Implementing Rules for the Wholly Foreign-owned Enterprise Law, to establish a whole foreign-owned enterprise, the investor shall make an application to the department in charge of foreign trade under the State Council or the organs authorised by the State Council. In the event of a separation, merger or other major change, a wholly foreign-owned enterprise shall report to and seek approval from the authorities in charge of examination and approval, and register the change with the industry and commerce administration authorities. The foreign investor in any wholly foreign-owned enterprise may remit abroad profits lawfully earned from the enterprise and other income and funds lawfully obtained following the liquidation of the enterprise.

Under the Measures for The Administration On Foreign Investment In Commercial Field (外商投資商業領域管理辦法), which was promulgated by the MOC on 16 April 2004 and with effect from 1 June 2004, foreign-funded commercial enterprises refer to enterprises with foreign investment engaged in commission agency, wholesale, retail or franchising. All foreign-invested commercial enterprises must meet the following conditions: (a) the minimum registered capital must accord with the relevant provisions as stated in the Company Law of the PRC; (b) the relevant provisions as to the registered capital and total investment of the Foreign-invested Enterprises must be complied with; (c) the period of operation of a foreign-invested commercial enterprise must not exceed 30 years in general.

### MANUFACTURES AND SALES OF FOOD

#### Licensing System for Food Production and Trading

Pursuant to the Regulation of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例) (the “**Production Licence Regulation**”), which was promulgated by the State Council on 9 July 2005 and with effect from 1 September 2005, and the Measures for the Implementation of the Regulation of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法) (the “**Implementing Rules on the Production Licence Regulations**”) which was last amended by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) (the “**AQSIQ**”) on 21 April 2010 and became effective from 1 June 2010, only enterprises granted with production licence are eligible to produce the important industrial products for which a production licencing system is implemented by the state. The Catalogue of Industrial Products (工業產品目錄) (the “**Industrial Products Catalogue**”) that forms part of the production licencing system

## APPLICABLE LAWS AND REGULATIONS

implemented by the state shall be formulated by the State Council department responsible for production licences for industrial products together with the other relevant State Council departments, and after soliciting the opinions of consumer associations and industrial associations for the relevant products, shall be issued to the public after being submitted to the State Council for approval. Enterprises produce any product listed in the Industrial Products Catalogue without applying for a production licence in accordance with these Regulations, the department responsible for production licences for industrial products shall order it to stop production, confiscate any illegally produced products, and fine the enterprise between one and three times the value of illegally produced products. Any illegal gains shall be confiscated and where the circumstances constitute a crime, criminal liability shall be pursued in accordance with the law.

No entity may use in the course of business activities any product listed in the Industrial Products Catalogue for which it has not granted a production licence. Where any enterprise uses in the course of its business activities any product listed in the Industrial Products Catalogue for which it has not obtained a production licence, it shall be ordered to take remedial action and fined between RMB50,000 and RMB200,000, and have any illegal gains confiscated; where the circumstances constitute a crime, criminal liability shall be pursued in accordance with the law.

Pursuant to Regulations on Food Safety Law of the PRC (中華人民共和國食品安全法) (the “Food Safety Law”), which was promulgated on 28 February 2009, and with effect from 1 June 2009, and the Implementing Rules on the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例) (the “**Implementing Rules on the Food Safety Law**”), which was promulgated on 20 July 2009 and with effect from the same date, the state adopts a licensing system for food production and trading. To engage in food production, food circulation, and catering services, the enterprise shall obtain the food production licence, food circulation licence, and catering service licence in accordance with the law. Food producers who have obtained food production licence do not need to obtain food circulation licence for selling the food produced by them at their production place.

According to the Measures for the Administration of Food Production Licensing (食品生產許可管理辦法), which was promulgated on 7 April 2010, and with effect from 1 June 2010, the validity term for a food production licence is three years. If the enterprise that has the food production licence needs to continue the production upon expiry of the validity term, it shall file an application for replacement of the licence with the original licensing authority within six months prior to the expiry of the validity term of the food production licence. If the replacement is approved, the certificate number of the food production licence shall remain unchanged. Where no application is filed for replacement of licence upon expiry of the validity term, it shall be deemed that the enterprise has no licence. Where the enterprise intends to continue the production of food, it shall file a new application for re-issuance of the licence and a new certificate number of the licence, the validity term of which shall be calculated from the date of permission.

According to Measures for the Administration of Food Circulation Licensing (食品流通許可證管理辦法), which was promulgated by the State Administration for Industry and Commerce (國家工商行政管理總局) (the “**SAIC**”) on 30 July 2009 and with effect on the same date, each branch of the enterprise which engages in food circulation shall obtain the food circulation licence separately. The validity term for a food circulation licence is three years. If the enterprise that has the food circulation licence needs to continue the circulation upon expiry of the validity term, it shall file an application for replacement of the licence with the original licencing authority within 30 days prior to the expiry of the validity term of the food circulation licence. If the replacement is approved, the certificate number of the food circulation licence shall remain unchanged.

## APPLICABLE LAWS AND REGULATIONS

### **Personnel Health Management System**

In accordance with Food Safety Law as well as the Implementing Rules on the Food Safety Law, food producers and traders shall establish and implement a personnel health management system. The personnel suffering from dysentery, typhoid, viral hepatitis or any other infectious disease of digestive tract or suffering from active tuberculosis, purulent or seeping skin disease or any other disease that affects the food safety shall not engage in work that involves contact with ready-to-eat food. Food producers and traders shall have physical check-up each year and shall obtain healthy certificates prior to working.

### **Procurement Check Record System and Food Ex-factory Check Record System**

According to Food Safety Law as well as the Implementing Rules on the Food Safety Law, Food producers purchasing food raw materials, food additives and food-related products shall check the licences and food eligibility certification documents of the suppliers. The food raw materials whose eligibility certification documents are unavailable shall be checked in accordance with the food safety standards; no food raw materials, food additives or food-related products inconsistent with the food safety standards may be procured or used. Food production enterprises shall establish a procurement check record system of food raw materials, food additives and food-related products, and truthfully record the names, specifications, quantities, names and contact information of suppliers, dates of purchase, etc. of food raw materials, food additives and food-related products. The procurement check records of food raw materials, food additives and food-related products shall be true, and shall be kept for at least two years. Food production enterprises shall establish a food ex-factory check record system, to check the inspection certificates and the safety conditions of ex-factory food and truthfully record the names, specifications, quantities, dates of production, lot numbers of production, numbers of inspection certificates, names and contact methods of purchasers, dates of sales, etc. of food. The food ex-factory check records shall be true, and shall be kept for at least two years. Furthermore, under Food Safety Law and the Implementing Rules on the Food Safety Law, food production and trading enterprises may either carry out inspection on the food produced by themselves or entrust the inspection to a food inspection institution complying with the provisions of these Law and regulations.

### **The symbol of food manufacturing permit**

According to Implementation Rules for the Supervision and Administration on the Quality Safety of the Food Manufacturing and Processing Enterprises (For Trial Implementation) (食品生產加工企業質量安全監督管理實施細則(試行)), the market access symbol for food quality safety, i.e. the symbol for food manufacturing permit, is a quality symbol, and shall be represented by the English abbreviation of quality safety (the “**QS**”), the QS symbol shall be printed (pasted) on the packaging or label of the food subject to the market access system for food quality safety before leaving factory. Those without the QS symbol shall not leave factory for sale. Where an enterprise uses the QS symbol, it indicates that it promises that its product has passed the inspection and meets the basic requirements of food quality safety. Where a quality problem, not due to any improper use or storage of customers, occurs to the food with a QS symbol printed (pasted) before its expiration date, the manufacturer and the seller shall assume their liabilities in accordance with their respective duties.

### **The Packages of Pre-packed Food**

Under the Food Safety Law and the Implementing Rules on the Food Safety Law, the packages of pre-packed food shall bear labels. The labels shall state the following matters, such as name, specifications, net content and date of production; list of ingredients or components; producer's name, address and contact methods; shelf life; product standard code; storage conditions; the general name of the food additives used in the national standards; category number of food production licence; and

## APPLICABLE LAWS AND REGULATIONS

other items that must be indicated according to laws, regulations or food safety standards. The labels of the staple and supplementary food exclusively for infants shall also indicate the principal ingredients and their contents.

### **Food Recall System**

Under the Food Safety Law and the Implementing Rules on the Food Safety Law, the state will establish a food recall system. Where a food producer finds that the food produced by it does not comply with the food safety standards, it shall immediately stop the production, recall the food on the market for sale, notify the relevant producers and traders, as well as consumers, and record the recall and notification. Where a food trader finds that the food traded by it does not comply with the food safety standards, it shall immediately stop the trading, notify the relevant producers and traders, as well as consumers, and record the cessation of trading and the notification. Where the food producers consider that the food should be recalled, the food shall be recalled immediately. The food producers shall take measures such as remedy, destruction or harmless treatment for the recalled food, and report the recalling and treatment of the recalled food to the quality supervision department at or above the county level. Where the food producers or traders fail to recall or stop trading of the food failing to comply with the food safety standards in accordance with the provisions of this Article, the quality supervision department, administration for industry and commerce, and the food and drug supervision and administration departments at and above the county level shall order them to recall or stop trading.

### **Food Import and Export**

Under the Food Safety Law and the Implementing Rules on the Food Safety Law, the imported food, food additives and food-related products shall be consistent with the national food safety standards of China. A food importer shall apply for an inspection with the entry and exit inspection and quarantine institution at the place of customs on the strength of necessary vouchers and relevant documents such as contract, invoices, packing note, bill of lading, etc.. The imported food shall be subject to the inspection conducted by the institution for entry and exit inspection and quarantine, and the customs office shall release the imported food on the basis of a customs clearance certificate issued by the institution for entry and exit inspection and quarantine. For any food that is imported for the first time and has neither been regulated by the requirements of the national food safety standards or a new variety of food additives or a new variety of food-related products imported for the first time, the importer shall file an application with and submit the relevant safety assessment materials to the health administration department under the State Council.

The imported pre-packed food shall be accompanied with labels and instructions in Chinese. The labels and instructions shall be consistent with the provisions of this Law and other relevant laws and administrative regulations of China and the requirements of the national food safety standards, and indicate the origin of food and name, address and contact methods of a domestic agent. Where any pre-packed food is not accompanied with labels or instructions in Chinese or the labels or instructions are not consistent with the requirements, the pre-packed food shall not be imported. The importer shall establish a food import and sale record system to truthfully record the names, specifications, quantities, dates of production, lot numbers of production or import, shelf life, names and contact methods of exporters, names and contact methods of purchasers, dates of delivery, etc. of food. The food import and sale records shall be true, and shall be kept for at least two years.

The food to be exported shall be subject to supervision and sample inspection of the entry and exit inspection and quarantine institution. The customs office shall release the food on the basis of a customs clearance certificate issued by the institution for entry and exit inspection and quarantine. The production enterprises of exported food and the planting and breeding farms of raw materials for exported food shall file a record with the department of entry and exit inspection and quarantine department of the state.

## APPLICABLE LAWS AND REGULATIONS

Pursuant to the Rules on Filing Administration of Export Food Production Enterprises (出口食品生產企業備案管理規定), which was promulgated by the AQSIQ on 26 July 2011 and with effect from 1 October 2011, the State adopts a filing administration system for export food production enterprises. Where an export food production enterprise fails to perform statutory filing obligations in accordance with law or its filing fails to satisfy requirements after being reviewed, its products may not be exported.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (中華人民共和國海關對報關單位註冊登記管理辦法), which was promulgated on 31 March 2005 and with effect from 1 June 2005, “consignor or consignee of export or import goods” means any legal person, other organisation or individual that directly imports or exports goods within the territory of China. Consignors or consignees of import or export goods shall go through registration formalities with their local Customs authorities in accordance with the applicable provisions. After going through the registration formalities with Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any other places where customs supervisory affairs are concentrated within the customs territory of China. PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of 3 years.

### *Supervision on the use of food additives*

Pursuant to the Food Safety Law, no food additive may be used in food unless it is technically deemed necessary and has been proven to be safe and reliable after passing risk assessments. The health administrative department of the State Council shall, on the basis of the technical requirements and the results of the food safety risk assessments, revise the varieties, scope of use and standard on the dosage of food additives in a timely manner. A food producer should use food additives in accordance with the food safety standards in relation to the varieties, scope of use and dosage of food additives, and should not, during the process of food production, use any chemical substances other than food additives or any other substances which may cause potential harm to human health.

According to the Measures for the Administration of New Varieties of Food Additives (食品添加劑新品種管理辦法), which was promulgated by the National Health and Family Planning Commission (國家衛生和計劃生育委員會) (the “NHFPC”) on 30 March 2010, and with effect from the same day, new varieties of food additives refer to the varieties which are not set by food safety national standards, or not listed in the permitted use catalogue announced by the NHFPC, or not part of the varieties whose scope or dosage has been enlarged. The NHFPC is responsible for the examination and permission of the application submitted by enterprises or individuals who engage in producing, operating, using or importing new varieties of food additives. In accordance with the technical features and food safety risk analysis of the new variety of food additives, the NHFPC shall make public and announce the permitted food additives varieties, scope of use and dosage to become food safety national standards. The NHFPC shall make a timely reassessment when safety problems of food varieties caused are proved by scientist research or other proof, or the technical need is not essential. Approved varieties of food additives may be revoked and the scope of use and dosage may be revised by the NHFPC if the applicant fails the re-examination.

### **Product Quality**

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (中華人民共和國產品質量法) (the “**Product Quality Law**”), which was promulgated by NPC on 22 February 1993 and amended on 8 July 2000. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of China, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

## APPLICABLE LAWS AND REGULATIONS

According to the Product Quality Law, consumers or other victims who suffer personal injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility for product defects lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend operation and its business licence may be revoked. Criminal liability may be incurred in serious cases.

### Consumer Protection

In October 1993, China adopted the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法) (the “**Consumer Protection Law**”) which was revised on 27 August 2009 and further revised on 25 October 2013. Under the Consumer Protection Law, a business operator providing a commodity or service to a consumer is subject to a number of requirements, including the following:

- ensuring that commodities and services meet with certain safety requirements;
- disclosing serious defects of a commodity or a service and adopting preventive measures against damage occurrence;
- providing consumers with accurate information and refraining from conducting false advertising;
- not setting unreasonable or unfair terms for consumers or alleviating or releasing itself from civil liability for harming the legal rights and interests of consumers by means of standard contracts, circulars, announcements, shop notices or other means; and
- not insulting or slandering consumers or conducting searches on consumers or articles carried by consumers or infringing upon the personal freedom of a consumer.

Business operators may be subject to civil liabilities for failing to fulfil the obligations discussed above. These liabilities include restoring the consumer’s reputation, eliminating the adverse effects suffered by the consumer, and offering an apology and compensation for any loss incurred. The following penalties may also be imposed upon business operators for the breach of these obligations: issuance of a warning, confiscation of any illegal income, imposition of a fine, an order to cease business operations, revocation of business licence or imposition of criminal liabilities under circumstances that are specified in laws and statutory regulations.

### Anti-Monopoly Law

Pursuant to the Anti-Monopoly Law of the PRC (中華人民共和國反壟斷法) (the “**Anti-Monopoly Law**”), which was promulgated by NPC on 30 August 2007 and effective from 1 August 2008, operators may, through fair competition or voluntary union, be concentrated lawfully in order to expand their operational scale and improve their market competitiveness. “Dominant market position” shall refer to a position where in an operator may manipulate the price, volume and other trade conditions of commodity on relevant market, or may obstruct or otherwise effect the entrance of other operators into relevant markets. The operators which have dominant market positions shall not abuse their dominant positions to eliminate or restrict competition.

## APPLICABLE LAWS AND REGULATIONS

### Competition Law

Competitions among the business operators are generally governed by the Law of the PRC for Anti-Unfair Competition (中華人民共和國反不正當競爭法) (the “**Anti-Unfair Competition Law**”). According to the Anti-Unfair Competition Law, when trading on the market, operators shall abide by the principles of voluntaries, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition.

### Price Law

Pursuant to the Price Law of the PRC (中華人民共和國價格法) (the “**Price Law**”), which was promulgated on 29 December 1997 and with effect from 1 May 1998, the operators shall, in determining prices, abide by the principle of fairness, being in conformity with law, honesty and credibility. And production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

### PROVISIONS ON PRE-PAID MEMBERSHIP CARDS

On 23 May 2011, the People’s Bank of China (中國人民銀行) (the “**PBOC**”), the PRC Ministry of Supervision (中華人民共和國監察部), the Ministry of Finance (財政部) (the “**MOF**”), the MOC, the State Administration of Taxation (國家稅務總局) (the “**SAT**”), the SAIC and the PRC National Bureau of Corruption Prevention (預防腐敗局) jointly issued the Administration Opinion on Regulating the Administration for Commercial Pre-paid Membership Cards (關於規範商業預付卡管理的意見) (the “**Administration Opinion**”). According to the Administration Opinion, these competent authorities acknowledge the positive effect of pre-paid membership card and do not prohibit a commercial enterprise to issue pre-paid membership cards itself.

The MOC promulgated the Administrative Measures for Single-purpose Commercial Pre-paid Membership Cards (For Trial Implementation) (單用途商業預付卡管理辦法(試行)) (the “**Administrative Measures for Pre-paid Membership Cards**”) on 21 September 2012 and came into effect on 1 November 2012, which reiterated and expanded upon the requirements to be satisfied by the issuers of the ‘single purpose’ pre-paid membership cards. The Administrative Measures for Pre-paid Membership Cards further defines ‘single-purpose’ pre-paid membership cards to include prepayment vouchers issued by enterprises engaged in retail industry, hotel and catering industry, and resident service industry, which could only be used in such enterprises, the group of which such enterprises are members, or the same franchise system of such enterprises. Our PRC Legal Advisers confirm that all of the Consumption Cards fall within the category of ‘single purpose’ pre-paid membership cards and therefore governed by the Administrative Measures for Pre-paid Membership Cards. The Administration Opinion and Administrative Measures for Pre-paid Membership Cards distinguishes the requirements of non-recorded pre-paid membership cards and recorded pre-paid membership cards. Although these two terms are not clearly defined in the regulations and rules, it is generally



## APPLICABLE LAWS AND REGULATIONS

understood that ‘non-recorded pre-paid membership cards’ are pre-paid membership cards where the purchaser’s details are not recorded except in the circumstance set out below and ‘recorded pre-paid membership cards’ are pre-paid membership cards where the purchaser’s details are always recorded. The main requirements under the Administration Opinion with additional requirements under the Administrative Measures for Pre-paid Membership Cards are summarised below:

<b>Administration Opinion</b>	<b>Non-recorded pre-paid membership cards</b>	<b>Recorded pre-paid membership cards</b>
<i>Maximum face value (Note)</i>	not exceed RMB1,000	not exceed RMB5,000
<i>Threshold of purchaser’s details to be recorded</i>	In the event of the purchase of non-recorded commercial pre-paid membership card with face value of less than RMB1,000 each but in an aggregate value of RMB10,000 or more at a time, the issuer is required to record the purchaser’s details.	Record purchaser’s details.
<i>Payment method and registration of purchase details</i>	<p>The following purchases must be by bank transfer instead of by cash:</p> <ul style="list-style-type: none"> <li>(a) an entity purchasing, on that occasion, pre-paid membership cards with aggregate face value of RMB5,000 or more at a time; and</li> <li>(b) an individual purchasing, on that occasion, pre-paid membership cards with aggregate face value of RMB50,000 or more at a time.</li> </ul> <p>In such bank transfer cases, the issuer needs to record the name of the purchaser, the relevant account numbers and the amount of transfer.</p>	
<i>Invoice requirement</i>	The issuer shall provide invoice for the sale of pre-paid membership cards according to the relevant laws and regulations, in particular, the relevant requirements of the Measures on Administration of the Invoices of the PRC (中華人民共和國發票管理辦法)	
<i>Limitations to expiry</i>	Expiration period shall not be less than three years. However, the relevant laws and regulations also require the issuer to renew the expired pre-paid membership cards with the unused value for the cardholders. Therefore, the issuer shall not recognise any revenue upon expiry of pre-paid membership cards.	No expiration period allowed.

## APPLICABLE LAWS AND REGULATIONS

### Administration Opinion

### Non-recorded pre-paid membership cards

### Recorded pre-paid membership cards

<i>Registration of issuers of pre-paid membership cards</i>	<p>Issuers who issued pre-paid membership cards prior to the Administrative Measures for Pre-paid Membership Cards becoming effective must register with the relevant authority within 90 days since the effective day of the Administrative Measures for Pre-paid Membership Cards.</p> <p>Issuers who begin issuing pre-paid membership cards after the Administration Measures for Pre-paid Membership Cards becoming effective must register with the relevant authority within 30 days since they start issuing pre-paid membership cards. Otherwise, the relevant authority is entitled to request the issuing enterprise to rectify the situation within a prescribed time limit. If such enterprise still fails to register, it may be subject to a fine in the range of RMB10,000 to RMB30,000. HFT (Guangzhou) Trading has already registered with the commerce department of Guangzhou City.</p>
<i>Reserve account</i>	<p>As part of the above registration procedure, the certain kinds of issuers shall establish a commercial bank account as escrow account and shall enter into a capital management agreement with the depository bank. As a group issuer of pre-paid membership cards, the deposit amount shall not be less than 30% of the outstanding amount of the aggregate unused value of pre-paid membership cards in the preceding quarter. As an alternative, all or part of this deposit may be in the form of bank guarantee or surety insurance.</p>
<i>Additional details to be recorded</i>	<p>Based on the threshold of which require purchaser's details to be recorded under the Administration Opinion, the issuer is also required to (a) request the purchaser to present his/her valid identity documents to the issuer; and (b) issuer to record the names, valid identity certificate numbers and contact details of such purchaser.</p>
<i>Additional requirement for payment method</i>	<p>An entity or individual not purchasing pre-paid membership cards on site shall purchase by way of bank transfer but not cash. Similar to the other bank transfer cases, the issuer must also record the name of the purchaser, the relevant account numbers and the amount of transfer.</p>
<i>Maintenance of data</i>	<p>Data collected for purposes of the pre-paid membership cards must be maintained for at least five years.</p>

## LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

### Environmental Protection Law

The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”) was promulgated and effective on 26 December 1989. This Legislation has been formulated for the purpose of protecting and improving both the living environment and the ecological environment, preventing and controlling pollution, other public hazards and safeguarding people's health.

## APPLICABLE LAWS AND REGULATIONS

According to the provisions of the Environmental Protection Law, in addition to other relevant laws and regulations of the PRC, the Ministry of Environmental Protection and its local counterparts take charge of administering and supervising said environmental protection matters. According to the provisions of the Environmental Protection Law, the environmental impact statement on any such construction project must assess the pollution that the project is likely to produce and its impact on the environment, and stipulate preventive and curative measures; the statement shall be submitted to the competent administrative department of environmental protection for approval. Installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal part of the project. Permission to commence production at or utilise any construction project shall not be granted until its installations for the prevention and control of pollution have been examined and confirmed to meet applicable standards by the appropriate administrative department of environmental protection that examined and approved the environmental impact statement. Installations for the prevention and control of pollution shall not be dismantled or left idle without authorisation. Where it is absolutely necessary to dismantle any such installation or leave it idle, prior approval shall be obtained from the competent local administrative department of environmental protection.

### **Environmental Impact Appraisal**

In accordance with the Environmental Impact Appraisal Law of the PRC (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the NPC on 28 October 2002 which became effective on 1 September 2003, the Regulations on the Administration of Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on 29 November 1998 which became effective on the same day, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by the State Environmental Protection Administration of China on 27 December 2001 which became effective on 1 February 2002 and amended on 22 December 2010, require enterprises planning construction projects to engage qualified professionals to provide assessment reports on the environmental impact of such projects. The assessment report must be filed with, and approved by, the local environmental protection bureau, prior to commencement of any construction work. After completion, the construction projects must be checked and accepted by competent environmental protection bureau before being put into production or use.

### **Prevention and Control of Water Pollution**

Pursuant to Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), which was revised on 28 February 2008 and with effect from 1 June 2008, the state adopts licence system for pollutant discharge. Enterprises and institutions that discharge industrial waste water or medical treatment sewage directly or indirectly into a water body, as well as other enterprises and institutions that can discharge waste water or sewage only after obtaining licence for pollutant discharge shall obtain licence for pollutant discharge. The specific measures and implementation procedures for the licence for pollutant discharge shall be formulated by the State Council.

### **Prevention and Control of Environmental Noise Pollution**

Pursuant to Law of the PRC on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法), which was promulgated on October 29, 1996, which take effective on 1 March 1997 the industrial noise emitted to the living environment of the neighbourhood within an urban area shall be kept within the limits set by the State on emission of environmental noise and within the boundary of an industrial enterprise. Any industrial enterprise that produces environmental noise pollution due to the use of permanent equipment in the course of industrial production must, in accordance with the regulations of the competent administrative department for environmental protection under the State Council, report to the competent administrative department for

## **APPLICABLE LAWS AND REGULATIONS**

environmental protection of the local people's government at or above the county level the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Any industrial enterprise that intends to make a substantial change in the types or quantity of the equipment that produces environmental noise pollution, in the noise level or facilities for prevention and control of such pollution must submit a report without delay and take prevention and control measures as it should. Industrial enterprises that produce environmental noise pollution shall take effective measures to minimise the impact of noise on the living environment of the neighbourhood.

### **Prevention and Control of Environmental Pollution by Solid Waste**

Pursuant to the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), which was promulgated on 29 December 2004 and with effect from 1 April 2005, entities discharging industrial solid wastes shall establish and improve the responsibility system for the prevention and control of environmental pollution and adopt measures for the prevention and control of environmental pollution by industrial solid wastes.

### **Standards of Collecting Fees for Discharge of Pollutants**

According to the Circular on the Standards of Collecting Fees for Discharge of Pollutants (排污費徵收標準管理辦法), which was promulgated on 28 February 2003, and with effect from 1 July 2003, environmental protection authorities under the local people's government at or above the county level shall collect the fee for pollutant discharge. In particular, enterprises, institutions and individually-owned industrial and/or commercial businesses that directly discharge pollutants into a water body shall pay the fee for pollutant discharge according to the kinds and quantity of the water pollutants discharged and the standards for collecting the fee for pollutant discharge. Enterprises that pay fees to facilities for centralised treatment of urban sewage according to the kinds and quantity of the water pollutants discharged shall not pay the fee for discharge of pollutants. Enterprises, institutions and individually-owned industrial and/or commercial businesses that discharge atmospheric pollutants shall pay the fee for pollutant discharge on the basis of the categories and quantities of the atmospheric pollutants discharged. If construction of facilities and sites for storing and treating industrial solid wastes have not been built or have not complied with state standards on environmental protection, enterprises, institutions and individually-owned industrial and/or commercial businesses shall pay fees for solid wastes discharge according to the kinds and quantity of the solid wastes pollutants discharged. Enterprises, institutions and individually-owned industrial and/or commercial businesses that produce environmental noise pollution that impairs the living environment of the neighbourhood shall pay fees for excessive emission of such pollution.

## **LAW ON INTELLECTUAL PROPERTY RIGHTS**

### **Regulations on Patents**

Under the Patent Law of the PRC (中華人民共和國專利法) promulgated by the Standing Committee of the NPC on 27 December 2008 and effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

## APPLICABLE LAWS AND REGULATIONS

According to the Patent Law of the PRC, any entity or individual that seeks to exploit a patent owned by another party shall enter into a patent licence contract with the patent owner concerned and pay patent royalties to the patent owner. The licensee does not have the right to allow any entity or individual not specified in the contract to exploit such patent.

### Regulations on Trademarks

Both the Trademark Law of the PRC (中華人民共和國商標法) promulgated by the Standing Committee of the NPC in 1982 and last amended in 2001, and the Regulation on Implementation of the Trademark Law of the PRC (中華人民共和國商標法實施條例) promulgated by the State Council in 2002 provide protection to the holders of registered trademarks. In China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within six months prior to the expiration of the term.

Under the Trademark Law of the PRC, any of the following acts may be regarded as an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical with or similar to the registered trademark on the same or similar commodities without authorisation; (ii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iii) forging, manufacturing the marks of a registered trademark of others without authorisation, or selling labels of a registered trademark that are forged or manufactured without authorisation; (iv) altering another party's registered trademark without authorisation and selling goods bearing such altered trademark on the market; and (v) causing other damage to the right to exclusive use of a registered trademark of another person. Violation of the Trademark Law of the PRC may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Trademark licence agreements must be filed with the Trademark Office under the SAIC or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

### Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China (中國互聯網域名管理辦法), which was promulgated on 5 November 2004 and effective from 20 December 2004, "domain name" shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the Internet and corresponds to the Internet protocol (IP) address of that computer. The principle of "first come, first serve" is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

## LAWS AND REGULATIONS ON LABOUR AND PRODUCTION SAFETY

### Labor Law

According to the Labor Law of the PRC (《中華人民共和國勞動法》) which was promulgated by the Standing Committee of NPC and was revised on 27 August 2009, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by state rules and standards on work place safety and sanitation, educate labourers of work place safety and sanitation.

## APPLICABLE LAWS AND REGULATIONS

Work place safety and sanitation facilities shall comply with state-fixed standards. The enterprises and institutions shall provide labourers with work place safety and sanitation conditions which are in compliance with state stipulations and relevant articles of labour protection.

### **Labor Contract Law**

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (“**Labour Contract Law**”) promulgated by the Standing Committee of the NPC on 29 June 2007 which became effective on 1 January 2008, governs the relationships between employers and employees and contains specific provisions in relation to the terms and conditions of an employment contract. The Labour Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. Enterprises and institutions are forbidden to force the labourers to work beyond the time limit and the employers shall pay labourers overtime working compensation in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the labourers timely. Pursuant to the Labour Contract Law, employment contracts lawfully concluded prior to the implementation of the Labour Contract Law and continuing as of the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the Labour Contract Law but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

### **Production Safety Law**

According to the PRC Production Safety Law (《中華人民共和國安全生產法》) (the “**Production Safety Law**”), effective as of 1 November 2002, enterprises and institutions shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programmes to the employees thereof regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipment that reaches the national standards or industrial standards to the employees thereof, supervise and educate them to use these equipment according to the prescribed rules.

### **Regulations on Occupational Injury Insurance**

According to the Regulations on Occupational Injury Insurance (《工傷保險條例》) effective as of 1 January 2004 and amended on 20 December 2010, the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險暫行辦法》) effective as of 1 January 1995, the Interim Regulations concerning the Levy of Social Insurance (《社會保險費徵繳暫行條例》) effective as of 22 January 1999, the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) effective as of 19 March 1999 and the Regulations concerning the Administration of Housing Fund (《住房公積金管理條例》) effective as of 3 April 1999 and amended on 24 March 2002, enterprises and institutions in China shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as housing fund and other welfare plans.

If an enterprise fails to pay the required premiums or withhold the payment of its employees, the relevant authorities in charge of labour or tax will demand the enterprise to settle the overdue amount within a stipulated time limit. If the enterprise fails to perform its obligation before the expiration of the specified time period, the authorities will impose a fine of 0.2% of the overdue amount per day,

## APPLICABLE LAWS AND REGULATIONS

calculated from the date on which the amount became overdue. The Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated by the Standing Committee of the National People's Congress on 28 October 2010 integrates the regulations on pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance and further clarifies the responsibility of employers and the legal liability for non-compliance with laws and regulations relating to social insurance. The Social Insurance Law of the PRC came into effect on 1 July 2011 and does not affect the effectiveness of the existing regulations on social insurance as described above.

According to the Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999 which became effective on 3 April 1999 and as amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to housing accumulation funds. The payment is required to be made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

### PRC TAXATION

#### Enterprise Income Tax

Under the Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法) (the “**EIT Law**”) effective on 1 January 2008, domestic enterprises and foreign invested enterprises are subject to the same corporate income tax law and the same corporate income tax rate of 25%. Pre-tax deduction methods and criteria for domestic and foreign invested enterprises have been made unified and standardised.

Under the EIT Law, enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Pursuant to the EIT Law and Regulations on the Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “**EIT Regulations**”), in addition to enterprises established within China, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and subject to the unified 25% enterprise income tax rate for their global income. According to the EIT Regulations, “de facto management body” refers to a managing body that exercises substantial and comprehensive management and control over the production and business, personnel, accounting and assets of an enterprise. It is not clear whether we would be deemed as “resident enterprises”. In addition, dividends from domestic subsidiaries to their shareholders, which are treated as resident enterprises, are exempted from withholding tax. However, if we are deemed as “resident enterprise”, we may not be eligible for such tax preference because of its ambiguity.

Under the EIT Law and EIT Regulations, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” (which include enterprises that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) to the extent that such dividends have their source within China unless there is an applicable tax treaty between China and the jurisdiction in which an overseas holder resides and which reduces or exempts the relevant tax. Similarly, any gain realised on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within China.

Pursuant to the Arrangements between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on 21 August 2006 and entered into force on 1 January 2007, when an enterprise in China distributes dividends to Hong Kong residents who are eligible for receiving such dividends, the Hong Kong residents, if holding more than 25% equity interest in such enterprise of China, are generally

## APPLICABLE LAWS AND REGULATIONS

subject to a rate of 5% of the total dividends received. Furthermore, the SAT issued the Notice of the SAT on Issues Regarding the Implementation of Dividend Provisions in Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知) on 20 February 2009, which, among other things, (i) requires the non-resident taxpayer or the withholding agent to provide a host of documentary evidencing that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty, and (ii) empowers the competent tax authorities with the discretion to adjust the preferential tax rate to which an offshore entity would otherwise be eligible if the main purpose of such offshore arrangement is to obtain a preferential tax treatment. Pursuant to the Administrative Measures for the Application of Tax Treaties to Non-residents (for Trial Implementation) (非居民享受稅收協定待遇管理辦法(試行)的通知), which were promulgated on 24 August 2009 by the SAT and became effective on 1 October 2009, a non-resident subject to taxation is required to obtain the approvals from the relevant tax authorities before it may enjoy a tax reduction or waiver under the dividend provision of a tax treaty.

### **Business Tax**

Under the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) promulgated by the State Council on 13 December 1993, amended on 5 November 2008, and implemented on 1 January 2009, and the Detailed Implementing Rules of the PRC on the Provisional Regulations on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance and the SAT on 25 December 1993, amended on 15 December 2008 and implemented on 1 January 2009, and further amended on 28 October 2011 and implemented on 1 November 2011, business tax is imposed on income derived from the furnishing of specified services and transferring of immovable property or intangible property at rates ranging from 3% to 20%.

### **Value-added tax**

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), last amended on 5 November 2008 and with effect from 1 January 2009 and its implementation rules, all entities or individuals in China engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (the "VAT"). The amount of VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% for those engaging in the sale or importation of goods except as otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the Provisional Regulations on Value-added Tax of the PRC and is also 17% for those providing processing services, repairs and replacement services.

### **Urban Maintenance and Construction Tax as well as Education Surtax**

According to Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which was promulgated and with effect from 18 October 2010, from 1 December 2010, the Tentative Regulations of the PRC on Urban Maintenance and Construction Tax promulgated in 1985 and the Tentative Provisions on the Collection of Educational Surtax promulgated in 1986 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例), which was promulgated on 8 February 1985 and with effect from 1985, and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知), which was promulgated on 12 March 1994 and with effect from 1 January 1994, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be



## APPLICABLE LAWS AND REGULATIONS

based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

In accordance with Tentative Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定), which was last revised on 29 December 2010 and with effect from 8 January 2011, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

### Tax Collection for Share Transfer by Non-PRC Resident Enterprises

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (the “**Circular 698**”), issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008, except for the purchase and sale of equity through a public securities market, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. If the tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid PRC tax, the tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterise the Indirect Transfer.

### REGULATION ON FOREIGN EXCHANGE

On 29 January 1996, the State Council promulgated the Regulations of the PRC on the Control of Foreign Exchange (中華人民共和國外匯管理條例) which became effective on 1 April 1996 and were amended on 14 January 1997 and 1 August 2008. These Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to China Securities Regulatory Commission and the State Administration of Foreign Exchange (the “**SAFE**”) approval, but the conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, require prior approval from the SAFE or its local counterparts. Payments for transactions that take place within China must be made in Renminbi. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad.

On 29 August 2008, the General Affairs Department of the SAFE issued the Notice on Relevant Business Operations Issues on the Relevant Operating Issues concerning Improvement of the Administration of Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知) (the “**Notice 142**”), which aims at strengthening the administration of payment and settlement of foreign exchange capital of foreign-invested enterprises. Pursuant to the Notice 142, the Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise may only be used for purposes within the business scope of the relevant foreign-invested companies approved by the applicable governmental authority and cannot be used for equity investments or acquisitions within China unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise.

## APPLICABLE LAWS AND REGULATIONS

On 10 May 2013, the SAFE issued the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors and Relevant Supporting Documents (外國投資者境內直接投資外匯管理規定及配套文件), which aims at promoting and facilitating domestic direct investment by foreign investors, and regulating the administration of foreign exchange in domestic direct investment by foreign investors.

According to the Notice on Further Improving and Adjusting Management Policies on Foreign Exchange of Direct Investment (關於進一步改進和調整直接投資外匯管理政策的通知) (the "Notice 59"), promulgated by the SAFE on 19 November 2012 and effective from 17 December 2012, foreign investors are no longer required to obtain approval from SAFE to re-invest in China by using legal income generated in China. No approval from the SAFE is required for opening the bank account, payment of foreign exchange in relation to direct foreign investments in China. Also, domestic transfer of foreign exchange under direct investment account is no longer subject to approval by the SAFE. In addition, the foreign invested entities are permitted to remit funds to their offshore parent companies.

## HISTORY AND DEVELOPMENT

### OVERVIEW

Our Company was incorporated under the laws of the Cayman Islands on 10 January 2014 in preparation for the Listing and is the holding company of our Group companies. Our Company was incorporated as part of our Reorganisation, the details of which are set out in the paragraph “Our Reorganisation” below in this section.

Prior to the implementation of the Reorganisation steps on 28 February 2014 and 14 March 2014, our Group was a group of private entities directly owned by Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse, Dr. Szeto, and Mr. Wong (collectively, the “**Existing Shareholders**”), without a common holding company. A series of restructuring steps have been carried out as part of our Reorganisation to transfer the businesses and assets from our Existing Shareholders to our Company for the purposes of streamlining and consolidating our shareholding and corporate structure.

As a result of the Reorganisation, our Controlling Shareholders will together, directly or through their respective controlled entities, control 62.3% of the voting rights in our Company immediately following the completion of the Global Offering and the Capitalisation Issue.

### OUR BUSINESS HISTORY

Our reputable and award-winning “鴻福堂 (Hung Fook Tong)” brand has a history of over two decades and has evolved into a leading Chinese herbal drinks, Chinese-style soups and tortoise herbal jelly brand in Hong Kong. According to the Ipsos Report, we were the top retail chain operator serving principally Chinese herbal drinks and other drink, soups and tortoise and herbal jelly in Hong Kong in 2013, with a market share of 34.4%, in terms of revenue and the number of retail shops. Over the course of our operating history, by continuously adopting innovative business strategies and adapting to changing preference of our customers, we believe that we have transformed from a traditional Chinese herbal tea shop into a modern wellness concept food and beverage enterprise and have diversified our product offering to cover a variety of herbal and non-herbal products which we market with our wellness concept.

The history of our Group goes back to 1986 when the late Mr. Wong Jing Fat, father of Ms. Wong, our executive Director and a Controlling Shareholder, used his own savings to establish the first herbal tea shop under our “鴻福堂 (Hung Fook Tong)” brand in Kwai Chung, Hong Kong. The late Mr. Wong Jing Fat was engaged in the retail sales of herbal tea and groceries prior to the opening of the herbal tea shop. This first herbal tea shop marked the genesis of our “鴻福堂 (Hung Fook Tong)” retail shop chain and was decorated with traditional Chinese décor. Subsequently, Ms. Wong, Mr. PT Tse and Mr. Kwan, together with the late Mr. Wong Jing Fat incorporated a company to further expand the herbal tea shop business which was funded by their own savings, respectively.

In 1997, building on the success of our herbal tea shops, we started our Indirect Sales operation by producing herbal drinks packaged in glass bottles which were sold to retailers operating convenience store chains in Hong Kong.

Our Group subsequently expanded by adopting a franchise operation with an aim to expedite growth. The franchising arrangements were considered by the then management of our Group as an effective means to augment the sales of our herbal tea products and number of herbal tea shops with minimal financial demand from our Group. However, we decided to modernise and standardise the image of our “鴻福堂 (Hung Fook Tong)” brand in 2000, as we faced difficulties in coordinating all franchisees in a coherent manner. As a result, we began to centralise the operation and management of our “鴻福堂 (Hung Fook Tong)” herbal tea shops.

## HISTORY AND DEVELOPMENT

In the 2000's, we focused our attention to the importance of food safety and quality control, and our efforts have since been recognised by accreditation organisations. In 2003, our product plants were certified with ISO 9001:2000 certification, followed by the award of a Hong Kong Q-Mark service certification to our herbal tea outlets in 2004.

In 2008, we launched our membership card loyalty programme, offering our members a range of special offers and rewards, and our pre-paid coupons which can be redeemed for our Fresh Products and Long Shelf-life Drinks at our retail shops. We adopted these additional sales channels to leverage on our established customer base and brand value.

Geographically, we expanded the coverage of our retail shop network and opened our first shop in Shenzhen in 2007. In the same year, we opened our first 24-hour herbal tea shop at the Hong Kong International Airport to offer our products to travellers visiting Hong Kong.

Under the leadership of our Controlling Shareholders and executive Directors, our business has expanded from one traditional herbal tea outlet in Kwai Chung, Hong Kong in 1986 into a chain operation of more than 120 food and beverage retail shops in Hong Kong and China as at the Latest Practicable Date, operating under “鴻福堂 (Hung Fook Tong)”, which has become one of the most iconic Chinese herbal drinks, soups and herbal jelly brands in Hong Kong.

### History and Restructuring of our PRC Operation

Our retail operation in China has been operating since 2007. Historically, for the purpose of administrative convenience, all of our retail shops in China (except three retail shops in Shanghai which have been operated by our Group directly since their respective commencement of operation) were operated as individual proprietorships (個體工商戶) by Mr. Kwan, our executive Director and a Controlling Shareholder, and Ms. Lam Hiu Yin (林曉燕), being a friend of our Controlling Shareholders and an Independent Third Party, under entrustment arrangement for and on behalf of HFT International, a wholly-owned subsidiary of our Company. Our Group has entered into entrustment arrangements for nil consideration with each of Mr. Kwan and Ms. Lam Hiu Yin pursuant to which HFT International is (i) entitled to all the operating results as well as any tax or other losses arising from operation of the retail shops; (ii) entitled to all the decision making of the retail shops including but not limited to operation, financing, execution and administration; (iii) entitled to the legal ownership, right of use and disposal of assets related to the retail shops; (iv) responsible for any liability incurred for operation of the retail shops; and (v) entitled to terminate each entrustment arrangement and cease the operation of the relevant shops without the need to obtain consent of Mr. Kwan or Ms. Lam Hiu Yin, as applicable; and on the other hand, Mr. Kwan and Ms. Lam Hiu Yin shall (i) use his/her best endeavour to maintain the relevant PRC business operation licences for the retail shops; (ii) refrain from doing anything which may result in the contravention, invalidation or revocation of the relevant PRC business operation licences; (iii) waive any right to claim any profit from or asset in the relevant shops; and (iv) acknowledge that he/she shall be responsible for any potential liability arising from any legal proceedings or disputes caused by wilful default of Mr. Kwan or Ms. Lam Hiu Yin (as applicable) prior to transfer of the operation of the relevant shop to our Group.

In order to streamline the management of our PRC retail shops, on 30 December 2013, we obtained the approval from the relevant authority for an expansion of the business scope of HFT (Guangzhou) Trading, as a wholly foreign-owned enterprise in China, and we intend to transfer 22 out of the 23 PRC retail shops which were operated as individual proprietorships during the Track Record Period to HFT (Guangzhou) Trading to operate in the form of its branches. In 2011, 2012 and 2013, our revenue from Direct Sales in China (including sales of these 23 retail shops) were HK\$10.1 million, HK\$21.6 million and HK\$25.2 million, respectively, representing less than 5% of our total revenue. The remaining one retail shop ceased operation in April 2014. The previous lease agreements entered into by Mr. Kwan and Ms. Lam Hiu Yin as the individual proprietor in respect of such retail shops in China shall be terminated, and (i) the relevant lease shall be novated with the

## HISTORY AND DEVELOPMENT

consent of the relevant landlord, or (ii) new lease agreements shall be entered into by HFT (Guangzhou) Trading. The individual proprietorships previously registered under the name of and operated by Mr. Kwan and Ms. Lam Hiu Yin shall be deregistered. We are in the process of transferring our PRC retail shop operations from individual proprietorships to our branches under HFT (Guangzhou) Trading, and as at the Latest Practicable Date, five branches have been successfully set up under HFT (Guangzhou) Trading. We currently expect the whole transfer process to complete by the end of July 2014.

In relation to the remaining of the 17 retail shops operated as individual proprietorships, 16 of them have obtained and one of them is in the process of obtaining approval from the local department of the Ministry of Commerce (商務部) (the “MOC”) for the establishment of the relevant branches as at the Latest Practicable Date. Our Directors are of the view that there is no impediment in completing the transfer of business operation and the establishment of these 17 branches, save and except for one situated at the Metro station of Fo Shan. This one retail shop shall be successfully transferred upon obtaining the relevant approval from the local department of MOC. If any of such transfers is unsuccessful due to inability to obtain the relevant ownership certificates or approvals, it is our current intention to maintain the current entrustment arrangement until the expiration of the lease in November 2015 (for Fo Shan retail shop) and to rent alternative premises by a branch under HFT (Guangzhou) Trading. In 2011, 2012 and 2013, the revenue contribution of the retail shop in Fo Shan to our Direct Sales revenue was approximately 0.05%, 0.11% and 0.14%. Our Directors are of the view that there is no significant difficulty in identifying an alternative premises in case of the failure of obtaining the relevant ownership certificate or approvals required for the relevant transfer. Further, as the revenue contribution of the relevant retail shop in Fo Shan is insignificant, any suspension in business (if any) of such retail shops, will have no significant impact on the business operations and financial condition of our Group.

Our Directors consider that under the terms of the entrustment arrangement set out above, HFT International was and is exercising control over the relevant retail shops in China, and hence, the financial results of these retail shops were fully consolidated into the financial results of HFT International according to the Hong Kong Financial Reporting Standards for the purpose of our combined financial information for the years ended 31 December 2011, 2012 and 2013. Our Directors further confirmed that the Accountant's Report of our Group as set out in Appendix IA to this prospectus accurately reflects the financial information of our PRC operations under the relevant entrustment arrangements. The transfer process will have no impact on the financial information as set out in this prospectus.

### ***Restructuring of other companies in China***

On 28 January 2014, Goldmark entered into a sale and purchase agreement with Mr. Kwan and sold the entire issued share capital in Gaoda (Shenzhen), which had no active business, to Mr. Kwan for a consideration of HK\$1,570,000, which was calculated with reference to the initial investment amount, after arm's length negotiation, and settled by cash.

On 20 March 2014, in preparation for establishing our joint venture in Shanghai, HFT Holdings acquired the entire issued share capital in Luck Access, a shelf company, from the initial subscriber, at a consideration of HK\$1.

On 25 March 2014, Luck Access acquired the entire issued share capital in Gold Medal, a shelf company, from the initial subscriber, at a consideration of HK\$1, and 4,549,999 and 1,950,000 new shares in Gold Medal were allotted and issued to Luck Access and our JV Partner, respectively.

## HISTORY AND DEVELOPMENT

### Business milestones

The key events of the development of our business under our 鴻福堂 (Hung Fook Tong) brand are summarised as follows:

- 1986 Opening of the first herbal tea shop under our “鴻福堂 (Hung Fook Tong)” in Kwai Chung, Hong Kong
- 1988–1989 Establishment of our first production facility in Kwai Chung, Hong Kong, the first of its kind in the herbal industry, to ensure consistent product quality and safety
- 1994 Introduction of fully-automated production lines as a means to improve our production scale, efficiency and food safety
- 1997 Launch of glass bottled herbal drinks, including chrysanthemum with honey (銀菊露), sugarcane juice (甘蔗汁) and sour plum drink (酸梅湯), which was the first time herbal tea products were mass produced in such portable packaging in Hong Kong
- 2000 Introduction of plastic bottled drinks to further improve portability of our products
- 2002 Opening of our first herbal tea shop in a MTR station
- 2002 Our herbal tea was ranked no. 1 in terms of sales in the wellness drink category by AC Nielson for the first time, and we continued to be so recognised for 11 consecutive years
- 2003 Obtaining ISO 9001:2000 certification, an ISO International Standard for quality management system, in relation to our ability to consistently provide products that meet customers’ and applicable regulatory requirements at our Shenzhen (Guanlan) production facility
- 2003 Launch of Indirect Sales of our bottled herbal drinks through distributors overseas, selling in America, Canada and other markets
- 2004 Award of the Hong Kong Q-Mark Service certification to our herbal tea shops
- 2006 Launch of our “Home-made” series, comprising soup, dessert and snack products
- 2007 Opening of our retail shop in Shenzhen, China, signifying our venture into China
- 2007 Opening of our 24-hour retail shop at Terminal 2 of the Hong Kong International Airport, offering our products to travellers to Hong Kong
- 2008 Launch of our membership card loyalty programme to offer a range of special offers and rewards to our members
- 2010 Launch of our tortoise jelly in honey flavour in portable squeezing packaging
- 2012 Opening of our first retail shop in Shanghai
- 2014 Establishing a joint venture in Shanghai for further expansion of our retail network in Shanghai

## HISTORY AND DEVELOPMENT

### OUR GROUP COMPANIES

As at the Latest Practicable Date, our Group comprised our Company and 27 subsidiaries established in Hong Kong, China or the BVI, as follows:

Name of subsidiary	Principal business activities	Date and place of incorporation or establishment	Interest attributable to our Group	Share capital structure <sup>(1)</sup>
HFT BVI	Investment holding	17 January 2014 (BVI)	100%	1 share of <sup>(2)</sup> nil par value
Gaoda (Dongguan)	Manufacturing of plastic bottles	3 May 2012 (PRC)	51% <sup>(3)</sup>	HK\$8,000,000 registered capital
Gold Medal	Shop operations management for retail shop business in Shanghai	20 December 2013 (Hong Kong)	70% <sup>(4)</sup>	6,500,000 issued shares
Gold Work	Investment holding	1 April 2010 (Hong Kong)	100%	10,000 issued shares
Goldmark	Investment holding (plastic bottle factory in PRC)	11 October 2002 (Hong Kong)	51% <sup>(5)</sup>	100,000 issued shares
HFH	Manufacturing of bottled drinks	3 November 1998 (PRC)	100%	HK\$20,100,000 registered capital
HFT (China) Development	Import, wholesale and distribution of bottled herbal drinks	29 April 1993 (Hong Kong)	100%	6,000,000 issued shares
HFT (China) Investment	For future activities	25 January 2011 (Hong Kong)	100%	2 issued shares
HFT (Guangdong)	Shop operations management, and wholesale and retail of herbal tea and other related products	13 March 2008 (PRC)	100%	HK\$13,000,000 registered capital
HFT (Guangzhou) Trading	Trading of bottled drinks in PRC	9 December 2011 (PRC)	100%	RMB2,000,000 registered capital
HFT (Herbal Tea)	Manufacturing and wholesale of herbal tea products and snacks	13 January 1989 (Hong Kong)	100%	300,000 issued shares
HFT (Shanghai)	Shop operations management, and wholesale and retail of herbal tea and other related products	8 September 2011 (PRC)	100%	RMB1,000,000 registered capital
HFT Franchise System	Shop operations management, and wholesale and retail of herbal tea and other related products	19 November 1992 (Hong Kong)	100%	10,000 issued shares
HFT Franchisor Consultancy	Design, promotion and public relations for Group business, and engineering and image design of shop business	20 April 1993 (Hong Kong)	100%	2 issued shares
HFT Herbal Tea Holdings	For future activities	10 January 2007 (Hong Kong)	100%	100 issued shares

## HISTORY AND DEVELOPMENT

Name of subsidiary	Principal business activities	Date and place of incorporation or establishment	Interest attributable to our Group	Share capital structure <sup>(1)</sup>
HFT Holdings	Investment holding	6 May 1993 (Hong Kong)	100%	1,111,110 issued shares
HFT International	Investment holding	20 July 1993 (Hong Kong)	100%	10,000 issued shares
HFT Management Institute	Provision of training courses	17 December 2005 (Hong Kong)	100%	1 issued share
HFT Property Leasing	Administration of Group's leases	20 April 1993 (Hong Kong)	100%	2 issued shares
HFT Real Property	Property Investment	22 July 1988 (Hong Kong)	100%	30,000 issued shares
HFT Services	Licence holding for HFT (Herbal Tea) and HFT Franchise System	4 October 1994 (Hong Kong)	100%	3 issued shares
HFT Trading Co.	Trading of bottled drinks	23 May 2006 (Hong Kong)	100%	1 issued share
HK HFT Herbal Tea	For future activities	24 December 2007 (Hong Kong)	100%	1 issued share
Luck Access	Holding company of the joint venture business in Shanghai	3 December 2013 (Hong Kong)	100%	1 issued share
Ming Tong (Shanghai)	Food and beverage management, wholesale of general merchandise, commission agency, import and export, and related services	12 September 2013 (PRC)	100%	RMB1,000,000 registered capital
QoL	Wholesale of coupons, customer relationship management, catering and events	21 July 1992 (Hong Kong)	100%	10,000 issued shares
Taclon	Investment holding and lease of a production facility at Tai Po Industrial Estate	15 December 1972 (Hong Kong)	100%	1,007,001 issued shares

*Notes:*

- (1) For companies incorporated in the BVI, the share capital structure refers to its issued share capital. For companies established in China, the share capital structure refers to its registered capital. For companies incorporated in Hong Kong, the share capital structure refers to its number of issued shares. As at the Latest Practicable Date, all share capital/ shares under the "Share capital structure" column were fully paid-up, save for Gaoda (Dongguan), of which registered capital in the amount of HK\$1,995,104.04 was paid.
- (2) The authorised share capital of HFT BVI is 50,000 shares of nil par value as at the Latest Practicable Date.
- (3) Gaoda (Dongguan) is wholly-owned by Goldmark, which in turn is owned as to 51% by Gold Work and as to 49% by Chan Yu Kai (陳羽佳) (who is director of Gaoda (Dongguan)).
- (4) Gold Medal is held as to 30% by our JV Partner.
- (5) Goldmark is held as to 49% by Chan Yu Kai (陳羽佳) (who is a director of Gaoda (Dongguan)).
- (6) All of our subsidiaries are private companies.



## HISTORY AND DEVELOPMENT

Our Group companies commenced business (if applicable) from the respective dates of their incorporation; save and except for Taclon, Luck Access and Gold Medal, for details of which please see paragraphs “Taclon Acquisition” and “Shanghai Joint Venture” below in this section.

### **Taclon Acquisition**

The principal asset of Taclon, our subsidiary after the Taclon Acquisition, is a long-term leasehold for a two-storey production facility located in the Tai Po Industrial Estate, Hong Kong for a term until 2047, together with the plant and machinery located therein, which is being modified to become our Tai Po production facility. Prior to the Taclon Acquisition, only approximately 7% of the gross floor area of the production facility was occupied by two bottled water production lines, which was then used by Aqua Pure, a connected person of our Company, for its bottled water production business under the “Aqua Pure” brand.

On 27 April 2012, HFT Industrial acquired an aggregate of 94.48% of the issued share capital of Taclon from two Independent Third Parties, holding 66.13% and 28.35% of the issued share capital in Taclon respectively prior to the acquisition, for a consideration of HK\$1.0 million. The remaining shareholder, then holding 5.52% in Taclon, was also an Independent Third Party.

On 16 August 2012, HFT Industrial transferred one share in Taclon to each of Ms. Wong and Mr. PT Tse, representing two shares out of its then 348,485 issued shares, for nil consideration.

On 30 September 2013, Taclon carried out a rights issue pursuant to which 658,516 shares in Taclon were issued to HFT Industrial, to raise a capital amounting to HK\$65.9 million. As the remaining minority shareholder holding 5.52% of the then issued share capital of Taclon did not subscribe to the rights issue, the relevant shares were taken up by HFT Industrial, Ms. Wong and Mr. PT Tse on pro rata basis. Ms. Wong's, Mr. PT Tse's and HFT Industrial's interest in Taclon, in aggregate, was increased to 98.09% of the then issued share capital and the then remaining minority shareholder's interest in Taclon was reduced to 1.91% upon the completion of the rights issue.

On 31 October 2013, HFT Industrial acquired the remaining 1.91% of the then issued share capital from the remaining minority shareholder for HK\$3.5 million.

In order to streamline our corporate structure for the purpose of the Listing, on 26 March 2014, HFT BVI entered into the Taclon Sale and Purchase Agreement to acquire the entire issued share capital of Taclon from HFT Industrial, Ms. Wong and Mr. PT Tse. The consideration for the Taclon Acquisition of HK\$82.6 million took into account the valuation of the property held by Taclon, for details of which please see “Appendix III — Property Valuation” to this prospectus. The Taclon Acquisition has been legally completed and was settled on 26 March 2014 by set-off against the amounts due from HFT Industrial and its related companies. HFT Industrial was the holding company of Taclon and Aqua Pure and three other subsidiaries which did not have active business activities. For reasons of the exclusion of Aqua Pure from our Group, please see the section “Relationship with Controlling Shareholders — Relationship with Our Controlling Shareholders — Delineation of our business from the business of Aqua Pure” in this prospectus. Our Directors are of the view that the acquisition of Taclon, being the property holding company of the Tai Po production facility premises, by our Group is a strategic investment, as we could modify and install production lines for production of our products for our expansion and gradually replace our Tsuen Wan production facility, the lease for which will expire in December 2014. Please see the section “Business — Properties — Properties in Hong Kong” in this prospectus for details of the lease in respect of the Tai Po production facility.

Our Directors considered that the Taclon Acquisition was not an acquisition of any business but was an acquisition of the long-term leasehold of the production facility premises and the equipment located thereon through the acquisition of Taclon, which should be accounted for as an acquisition of asset. Because of the foregoing, the Taclon Acquisition was not accounted for as a business

## HISTORY AND DEVELOPMENT

combination under common control, despite the fact that the three Controlling Shareholders, were also ultimate shareholders of Taclon both before and after the Taclon Acquisition, and the financial results of Taclon is not included within the historical combined financial information of our Group contained in the Accountant's Report of our Group in Appendix IA to this prospectus. Please see the section "Financial Information — Financial Information of Taclon" for discussion on the financial information of Taclon, the qualification by the reporting accountant of Taclon relating to matters which we consider as insignificant to the financial results of our Group, and to Appendix IB for the Accountant's Report of Taclon prepared in compliance with Rules 4.04(2) and 4.04(4) of the Listing Rules.

It is intended that the Tai Po production facility will be our main production facility in Hong Kong for our products. Ancillary to this principal use, the Tai Po production facility will be used by Taclon to provide certain production services to Aqua Pure, details of which are set out in the section "Relationship with Controlling Shareholders — Relationship with our Controlling Shareholders — Delineation of our business from the business of Aqua Pure" in this prospectus.

For details of the non-competing business carried out by Aqua Pure which is not included in our Group and the reasons for the exclusion thereof, please see "Relationship with Controlling Shareholders — Delineation of our business from the business of Aqua Pure" in this prospectus.

### Shanghai Joint Venture

Gold Medal was incorporated with limited liability in Hong Kong on 20 December 2013 with 6,500,000 issued shares. It is owned as to 70% by Luck Access, our wholly-owned subsidiary, and as to 30% by our JV Partner. Please see the section "Business — Our Strategies — Improve our sales and expand our market coverage in China" in this prospectus for the background and experience of our JV Partner.

It is intended that Gold Medal will engage in the following business in Shanghai:

- (a) retail shops selling food and drink products under the "鴻福堂 (Hung Fook Tong)" brand; and
- (b) management of the existing retail shops in Shanghai currently operated by our Group.

We entered into the Shanghai JV Agreement with our JV Partner in order to expedite our expansion in Shanghai and enhance the efficiency of the management of our retail shops there by leveraging on our JV Partner's management, marketing and strategy planning expertise and experience, as well as its networks and connections in Shanghai, to (i) identify and secure suitable locations to open new shops, and (ii) expedite and facilitate the external administrative processes in relation to our operation. The director of our JV Partner was an executive director of a company listed on the Stock Exchange engaged in, among other things, sales and distribution of food and consumer products. He has substantial experience in management and marketing of fast-moving consumable goods in Hong Kong and China, with a track record of introducing international retail brands into the PRC market and has well-established local business relationships, which we believe will enable us to streamline our expansion of Direct Sales in Shanghai.

For the purpose of governing the operation and management of Gold Medal, Luck Access and our JV Partner entered into the Shanghai JV Agreement, pursuant to which they have agreed, among other things, that:

- (a) the board of directors of Gold Medal shall consist of six members, with up to four directors (including the chairman) to be nominated by us through Luck Access and up to two directors to be nominated by our JV Partner;

## HISTORY AND DEVELOPMENT

- (b) our JV Partner shall not sell, transfer, dispose of, mortgage, pledge, charge or otherwise deal with its shares in Gold Medal without Luck Access' consent and, if our JV Partner proposes to sell, transfer or dispose of its shares to a third party, Luck Access shall have a prior right to acquire such shares at the same price as that in our JV Partner's proposal or at the par value, whichever is lower;
- (c) at any time within 12 months of the date of the Shanghai JV Agreement, Luck Access may by written notice require our JV Partner to sell all its shares in Gold Medal to Luck Access at a price which is not lower than the par value, and our JV Partner may by written notice require Luck Access to purchase all its shares in Gold Medal at a price which is not higher than the par value;
- (d) if Gold Medal proposes to issue new shares, Luck Access and our JV Partner shall have rights to subscribe for such new shares in proportion to their respective shareholding at the time or as otherwise agreed; and
- (e) if Luck Access proposes to sell, assign or transfer its shares to a third party, it has a drag-along right to require our JV Partner to sell a corresponding proportion of its shares to such third party.

As at the Latest Practicable Date, Gold Medal had not commenced operation.

### **Acting in Concert Arrangement of our Controlling Shareholders**

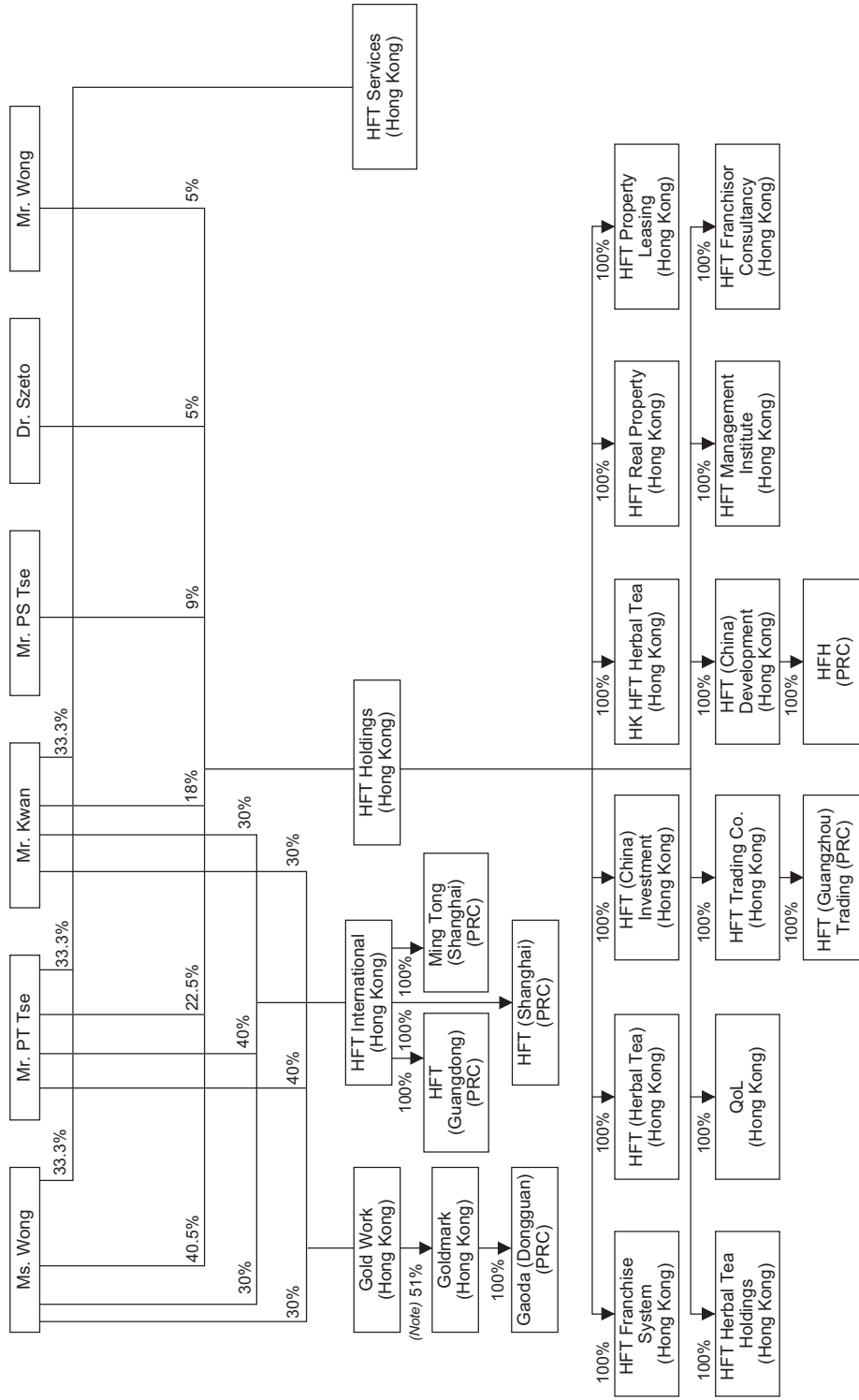
Over the course of our business history, each of our Controlling Shareholders has, in exercising and implementing the management and operation of each of our subsidiaries (except for Taclon which was acquired by HFT Industrial, a company owned by Mr. PT Tse, Ms. Wong, Mr. Kwan, Mr. PS Tse and Dr. Szeto, from Independent Third Parties on 27 April 2012, and acquired by HFT BVI of our Group through the Taclon Acquisition on 26 March 2014), been acting in concert with each other. Because we were a group of private entities in the past, these arrangements were not formalised in writing and each of our Controlling Shareholders was content with these arrangements based on their close and long-term business and personal relationships, as well as the trust and confidence they have in each other. Our Controlling Shareholders have confirmed that the acting in concert arrangements with respect to each Relevant Subsidiary became effective upon the Controlling Shareholders becoming the registered shareholders of such Relevant Subsidiary.

On 27 March 2014, in preparation for the Listing, our Controlling Shareholders executed the Acting in Concert Confirmation, for details of which please see the section "Relationship with Controlling Shareholders — Overview — Acting in Concert Confirmation" in this prospectus.

# HISTORY AND DEVELOPMENT

## OUR REORGANISATION

Set forth below is the shareholding and corporate structure of our Group immediately prior to the implementation of the Reorganisation:



Note: 49% of the shareholding in Goldmark is held by Mr. Chan Yu Kai (陳羽佳), who is director of Gaoda (Dongguan).

## HISTORY AND DEVELOPMENT

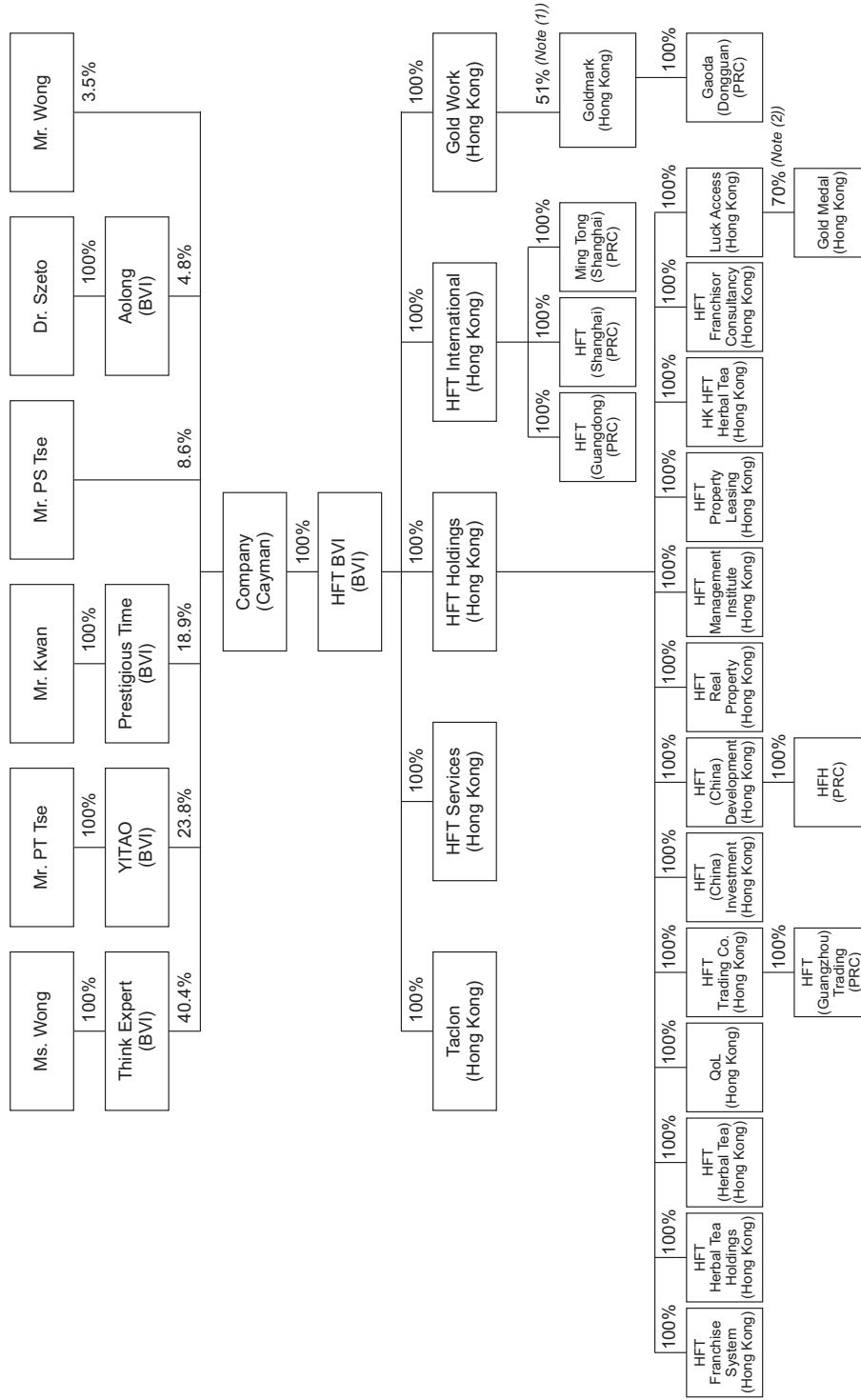
Our Reorganisation, the purpose of which is to consolidate the shareholding in our subsidiaries under our Company in preparation of the Listing, involved the following steps:

- (1) ***Incorporation of our Company:*** On 10 January 2014, our Company was incorporated with limited liability in the Cayman Islands with an authorised share capital of HK\$10,000 divided into 10,000 Shares of HK\$1.0 each. On the same day, one Share was issued and credited as fully paid to our Company's initial subscriber, and was subsequently transferred to Ms. Wong.
- (2) ***Incorporation of HFT BVI:*** On 17 January 2014, HFT BVI was incorporated with limited liability in the BVI with an authorised share capital of 50,000 shares with no par value. On the same day, one Share was issued and credited as fully paid to our Company.
- (3) ***Share Swap of our Group companies:***
  - (A) On 28 February 2014, Mr. Wong and our Company entered into Share Swap Agreement A to implement part of our Reorganisation, pursuant to which our Company issued 351 Shares to Mr. Wong, in consideration of which Mr. Wong (as vendor) transferred the 55,555 fully paid up shares in HFT Holdings (being 5% of its issued share capital) held by him to our Company (as purchaser), to be registered in the name of HFT BVI. The 351 Shares were issued for cash at par and credited as fully paid. Payment of such consideration was offset by the amount payable by HFT BVI (being a wholly-owned subsidiary of our Company for its acquisition of the 5% issued share capital in HFT Holdings).
  - (B) On 14 March 2014, Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse, Dr. Szeto (as vendors) and our Company (as purchaser) entered into Share Swap Agreement B, pursuant to which our Company issued 4,042 Shares, 2,376 Shares, 1,890 Shares, 861 Shares and 479 Shares to Think Expert, YITAO, Prestigious Time, Mr. PS Tse and Aolong, respectively, in consideration of which Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse and Dr. Szeto transferred their respective shareholding(s) in HFT Holdings, HFT Services, Gold Work and HFT International (as applicable) to our Company, to be registered in the name of HFT BVI. The Shares were issued for cash at par and credited as fully paid. Payment of such consideration was offset by the amount payable by HFT BVI for its acquisition of the shares in HFT Holdings, HFT Services, Gold Work and HFT International as stated above.
- (4) ***Share sub-division and increase of authorised share capital:*** In contemplation of the Global Offering, each Share of HK\$1.00 was subdivided into 100 Shares of HK\$0.01 each, and the authorised share capital of our Company increased from HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each, pursuant to the resolutions of our Shareholders passed on 11 June 2014.

Following the completion of the above steps, our Company was held as to 40.4%, 23.8%, 18.9%, 8.6%, 4.8% and 3.5%, respectively, by Think Expert, YITAO, Prestigious Time, Mr. PS Tse, Aolong and Mr. Wong, and our Company became the holding company of our Group companies.

## HISTORY AND DEVELOPMENT

Our Reorganisation was completed on 14 March 2014, the Taclon Acquisition was carried out on 26 March 2014 and the Shanghai JV Agreement was entered into on 25 March 2014 for the operation of Gold Medal as the holding company of our joint venture in Shanghai with our JV Partner. The following chart illustrates our shareholding and corporate structure immediately following the completion of our Reorganisation, the Taclon Acquisition and the establishment of Gold Medal, but prior to the Listing:



Note: (1) 49% of the shareholding in Goldmark is held by Mr. Chan Yu Kai (陳羽佳), who is director of Gaoda (Dongguan).

(2) 30% of the shareholding in Gold Medal is held by our JV Partner.

## HISTORY AND DEVELOPMENT

### Capitalisation Issue

Pursuant to the resolutions of our Shareholders passed on 11 June 2014 (details of which are set forth in Appendix V to this prospectus), conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares pursuant to the Global Offering, our Directors were authorised to issue and expect to issue a total of 473,000,000 Shares credited as fully paid at par to our Shareholders whose names appear on our share register at close of business on 11 June 2014 in proportion to their then respective shareholding by way of capitalisation of the sum of HK\$4,730,000 standing to the credit of the share premium account of our Company, and such Shares to be issued pursuant to the Capitalisation Issue shall rank *pari passu* in all respects with the existing Shares.





## OVERVIEW

We are principally engaged in the production and sales of Chinese herbal drinks and other drink products, Chinese-style soups and tortoise herbal jelly under our reputable and award-winning “鴻福堂 (Hung Fook Tong)” brand. We were the top retailer of Chinese herbal drinks, soups and tortoise herbal jelly in Hong Kong in 2013, with a market share of 34.4%, in terms of revenue and in terms of the number of retail shops, according to the Ipsos Report. Since the commencement of our operation in 1986, we have transformed from a traditional Chinese herbal tea shop to a modern wellness concept food and beverage enterprise, and have diversified our products to cover a variety of herbal and non-herbal products which we market with our wellness concept.

We develop our “鴻福堂 (Hung Fook Tong)” brand by associating it with our core values of building on traditional Chinese herbal culture, delivering benefits of healthy diet and natural ingredients, focusing on our stringent quality control and safety assurance, and providing convenient-to-consume products to our customers.

**Building on Traditional Chinese Herbal Culture** — We take pride in our long experience and deep knowledge of traditional Chinese herbal culture, and most of our Chinese herbal drinks and tortoise herbal jelly products are rooted in this culture.

**Delivering Benefits of Healthy Diet and Natural Ingredients** — We adhere firmly to our belief in the benefits of healthy diet and natural ingredients, as reflected in our motto of “Naturally Made, Wholeheartedly Good (真心製造·自然流露)” and our “No additive (無添加)” approach to our production process. We strive to produce healthy, nutritious and delicious products with quality natural ingredients and without addition of any artificial preservatives, artificial colouring or MSG, and we make effort in the selection of raw materials from suppliers and pay attention as to whether any artificial additives are added to such raw materials.

**Focusing on Quality Control and Safety Assurance** — We uphold our image as a Hong Kong-based enterprise with great emphasis on our modern production system and stringent product quality control and safety assurance standards over the entire production process, from raw material selection and procurement, production to packaging.

**Providing Convenient-to-consume Products** — We understand the needs of urban population with busy modern lifestyle and the importance of offering convenient-to-consume products to them. While traditional Chinese herbal drinks and food often require long preparation time and complicated preparation procedures, our products are ready-to-consume and conveniently packaged. We also locate our retail shops at convenient locations which can serve as one-stop shops providing a wide variety of our products catering to the customers’ whole-day needs from breakfast to dinner and as full meals or as snacks.

We believe these core values help us attract both mature consumers who generally believe Chinese herbal drinks to be effective in relieving mild chronic or recurring health problems with little side effect, as well as a growing population of young health-conscious customers who focus on the quality and health of their diet.

In recognition of our consistent efforts, we have received numerous awards, including the “Superbrands 2013 (Hong Kong’s Choice)” by Superbrands, “Top Ten Prestigious Corporate Brands Award 2013 (十大香港卓越企業品牌(評審團)2013)” by MingPao & MSc Marketing CUHK, “2012 My Favourite The Most Convenient MTR Shops — Excellence Award (2012我最喜愛至方便商舖 — 卓越獎)” by the MTR Corporation and “Trusted Brand 2012 & 2013 — Platinum Award (Chinese Soup/Herbal Tea Shop)” by the Reader’s Digest.

## Our Business Segments

We produce our products at our production facilities located in Hong Kong and China, and market them through two principal channels: (i) **Direct Sales:** direct cash sales and sales through coupons and pre-paid membership cards of mostly Fresh Products and some selected Long Shelf-life Drinks at our retail shops, and some direct cash sales at other locations, in Hong Kong and China, and (ii) **Indirect Sales:** sales of mainly Long Shelf-life Drinks and some selected Fresh Products principally to distributors and third-party retailers in Hong Kong, China and overseas. We believe our two principal sales channels complement each other, and help us increase the market awareness of our brand and enable us to reach out to a diverse customer base.

For Direct Sales, we have established a chain of 97 and 25 self-operated retail shops in Hong Kong and China, respectively, as at the Latest Practicable Date, where we primarily sell our Fresh Products by (i) cash sales and (ii) sales through redemption of coupons and stored value in pre-paid membership cards. Our other Direct Sales channels in Hong Kong include other retail points (such as exhibitions and temporary sales booths) and our online store.

For Indirect Sales, we primarily sell our Long Shelf-life Drinks to third-party retailers and distributors. For Indirect Sales in Hong Kong, the most important distribution channel is our key-account customers, including a number of large and well-known chains of supermarkets and convenience stores in Hong Kong, which sell our products to end-customers through their extensive networks of retail points. We also sell our products to other retailers, including restaurants, bakeries and grocery stores, as well as our two distributors, in Hong Kong. For Indirect Sales in China, we sell to retailers which are generally large retail chain stores, from whom we can obtain market information about our brand and products; and we also sell to distributors who purchase our products on wholesale basis and on-sell them to sub-distributors and/or retailers in regions in which they operate, which we believe is a cost-effective channel to improve market penetration of our products. For Indirect Sales overseas, we primarily sell to distributors who on-sell our products to customers in countries where they operate.

In addition to our two principal sales channels, we also have the following ancillary operations: (i) production of certain bottled drink products on OEM basis for a convenience store chain in Hong Kong which markets them principally under its brand; and (ii) franchising to a non-profit organisation in Hong Kong to operate two franchise shops under the “鴻福堂 (Hung Fook Tong)” brand in Hong Kong.

## BUSINESS

Our market leadership position, strong brand recognition and established sales and distribution network have enabled us to achieve rapid growth during the Track Record Period. Our revenue increased from HK\$479.3 million in 2011 to HK\$645.0 million in 2013, representing a CAGR of 16.0% during the Track Record Period, while our profit before income tax increased from HK\$9.5 million in 2011 to HK\$48.5 million in 2013 (after deducting the one-off listing-related expenses of HK\$5.9 million incurred in 2013), representing a CAGR of 126.0% during the Track Record Period.

Segments	Products	Source of revenue	Geographical regions	Percentage of our revenue in 2013
Direct Sales	<p><b>Fresh Products</b></p> <ul style="list-style-type: none"> <li>● Chinese herbal drinks and other drinks</li> <li>● Chinese-style soups</li> <li>● Tortoise and herbal jelly</li> <li>● Other food products (including snacks, desserts, rice, noodles and festive food products); and</li> </ul> <p><b>Long Shelf-life Drinks</b></p> <ul style="list-style-type: none"> <li>● 16 flavours of Chinese herbal drinks and other drinks, in particular new or promotional products (Note 1)</li> </ul>	<ul style="list-style-type: none"> <li>● Direct cash sales at retail shops</li> <li>● Direct sales through redemption of coupons (retail, corporate and online) and stored value in pre-paid membership cards</li> </ul>	Hong Kong and China	65.3%
		<ul style="list-style-type: none"> <li>● Direct sales at online shop</li> <li>● Direct sales at other locations, e.g. exhibitions and temporary sales booths</li> </ul>	Hong Kong	
Indirect Sales	<p><b>Long Shelf-life Drinks</b></p> <ul style="list-style-type: none"> <li>● 65 flavours of Chinese herbal drinks and other drinks (Note 1)</li> </ul> <p><b>Fresh Products</b></p> <ul style="list-style-type: none"> <li>● 18 flavours of drinks, e.g. Nourishing Deluxe (甘露系列) products (Note 1)</li> </ul>	<ul style="list-style-type: none"> <li>● Sales to third-party retailers, including key-account customers, and other retailers, e.g. restaurants, bakeries and grocery stores</li> </ul>	Hong Kong and China	33.1%
		<ul style="list-style-type: none"> <li>● Sales to distributors</li> </ul>	Hong Kong, China and overseas	
Others	<ul style="list-style-type: none"> <li>● Production of bottled drink products on OEM basis for a convenience store chain in Hong Kong which markets them under its brand</li> </ul>	<ul style="list-style-type: none"> <li>● Sales to an OEM customer</li> </ul>	Hong Kong	1.6%
	<ul style="list-style-type: none"> <li>● Sales of Fresh Products and Long Shelf-life Drinks to franchisee at franchise shops</li> </ul>	<ul style="list-style-type: none"> <li>● Sales to franchisee</li> </ul>	Hong Kong	

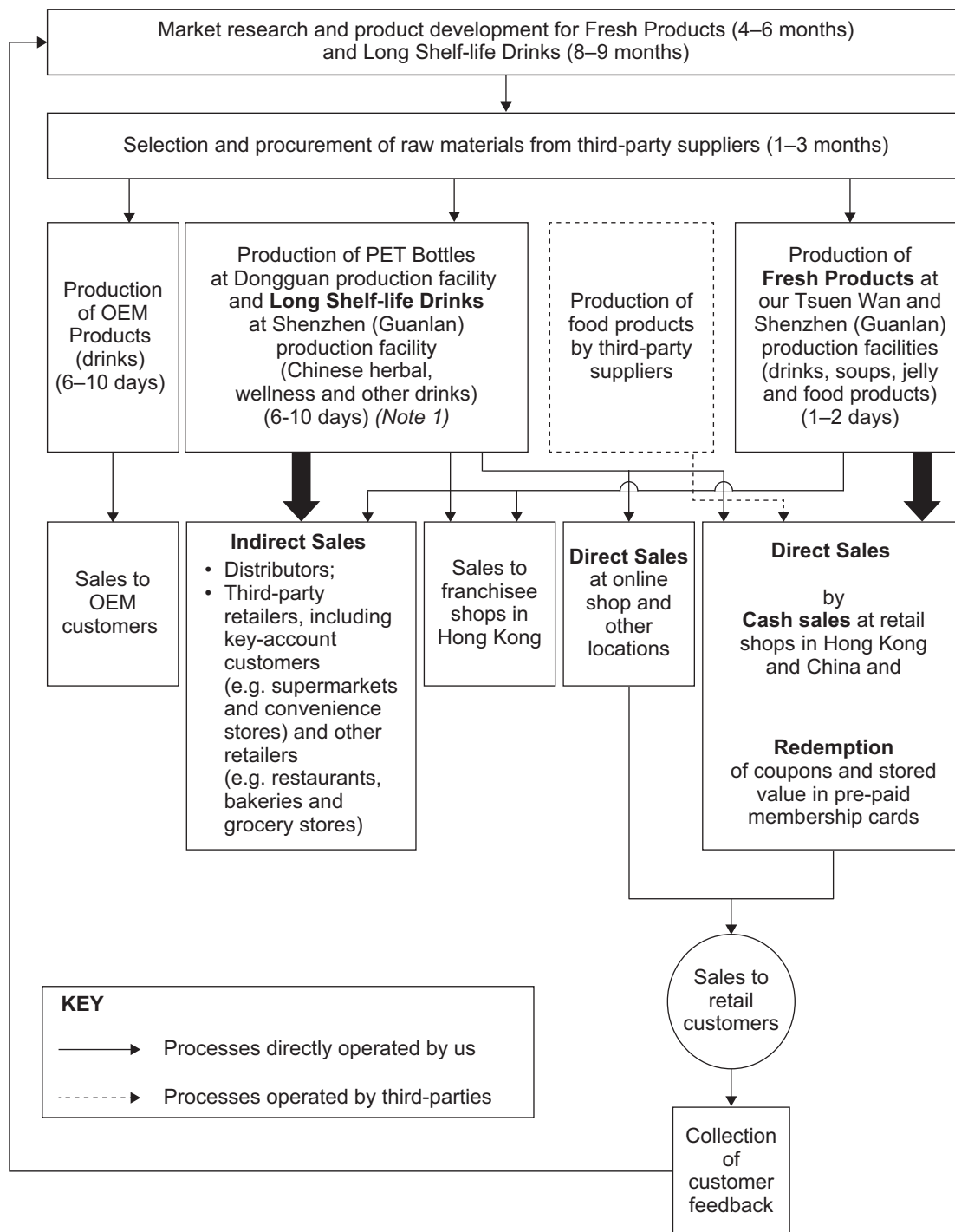
Note:

- (1) The number indicates the number of flavours of our drinks available for ordering by customers as at the Latest Practicable Date. The actual number of flavours of our drinks sold by us may differ from this number.

# BUSINESS

## OUR BUSINESS MODEL

The following diagram illustrates the key stages of product development, procurement, production, marketing, distribution and sales of our Long Shelf-life Drinks, Fresh Products and OEM Products and the approximate time required for such major processes.



Note:

- (1) The time required for production process refers to the entire process from receipt of request for production to delivery, and is longer than the time required for the actual production.

## BUSINESS

The table below sets forth a breakdown of our revenue generated from our different sales channels for the periods indicated. In 2011, 2012 and 2013, we recorded forfeited income, meaning the revenue recognised upon the expiry of pre-paid coupons or membership card values, of HK\$3.8 million, HK\$12.4 million and HK\$10.3 million, respectively, representing 0.8%, 2.1% and 1.6% of our revenue, or 1.2%, 3.1% or 2.4% of our Direct Sales revenue, in the respective periods. For gross profit and gross profit margin of our business segments during the Track Record Period, please see the section “Financial Information — Description of Certain Income Statement Items — Gross profit and gross profit margin” in this prospectus.

REVENUE	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Direct Sales	327,225	68.3	401,270	69.3	421,077	65.3
Indirect Sales	142,962	29.8	170,362	29.4	213,762	33.1
Others Sales to OEM customers and franchisees	9,111	1.9	7,061	1.3	10,210	1.6
<b>TOTAL REVENUE</b>	<b><u>479,298</u></b>	<b><u>100.0</u></b>	<b><u>578,693</u></b>	<b><u>100.0</u></b>	<b><u>645,049</u></b>	<b><u>100.0</u></b>

### OUR STRENGTHS

We believe we possess the following strengths which contributed to our growth and success and will enable us to achieve future growth in the Chinese wellness drink and food product market.

#### Well-recognised brand in Chinese herbal drink, soup and herbal jelly markets

We have a proven business track record and have established strong brand recognition. Through our consistent effort since we commenced operation as a traditional herbal tea shop in 1986, we have established “鴻福堂 (Hung Fook Tong)” as a reputable brand in Hong Kong which we believe is associated by the public with safe, quality, tasty and convenient-to-consume products. We were the top retailer of Chinese herbal drinks, soups and tortoise herbal jelly in Hong Kong in 2013, with a market share of 34.4%, in terms of revenue and in term of the number of retail shops, according to the Ipsos Report. In recognition of our efforts, we have received numerous awards, including the “Superbrands 2013 (Hong Kong’s Choice)” by Superbrands, “Top Ten Prestigious Corporate Brands Award 2013 (十大香港卓越企業品牌(評審團)2013)” by MingPao & MSc Marketing CUHK, “2012 My Favourite The Most Convenient MTR Shops — Excellence Award (2012我最喜愛至方便商舖 — 卓越獎)” by the MTR Corporation, “Trusted Brand 2012 and 2013 — Platinum Award (Chinese Soup/Herbal Tea Shop)” by the Reader’s Digest.

We develop and promote our “鴻福堂 (Hung Fook Tong)” brand by associating it with our core values of building on traditional Chinese herbal culture, delivering the benefits of healthy diet and natural ingredients, focusing on our stringent quality control and safety assurance standards and providing convenient-to-consume products to our customers. Most of our Chinese herbal drinks and tortoise herbal jelly products are rooted in traditional Chinese herbal culture. We adhere firmly to our belief in the benefits of healthy diet and natural ingredients, as reflected in our motto of “Naturally Made, Wholeheartedly Good (真心製造，自然流露)” and our “No additive (無添加)” approach to our production process. We strive to produce our products with quality natural ingredients and without addition of any artificial preservatives, artificial colouring or MSG, and we make effort in the selection of raw materials from suppliers and pay attention as to whether any artificial additives are added to the raw materials. We highlight our image as a Hong Kong-based enterprise with stringent product

quality control and safety standards over the entire production process, from raw material selection and procurement, production to packaging. We believe our dedication to these core values helped us to develop and promote our “鴻福堂 (Hung Fook Tong)” brand.

We adopt a multi-channel approach for our advertising and promotion strategy, including advertisement on television and printed media, engagement of brand spokespersons, in-store marketing at our retail shops, our “JICA CLUB” membership system, and product promotion and sales activities through our distribution channels. We believe our established brand image, together with our scale of operation, provide us with a solid platform from which to introduce new products and further increase our sales.

### **Effective two-channel sales model of Direct Sales and Indirect Sales**

We produce our products at our production facilities located in Hong Kong and China and market them through two principal channels: (i) **Direct Sales:** direct cash sales and sales through redemption of coupons and stored value in pre-paid membership cards of mostly Fresh Products and some selected Long Shelf-life Drinks at our retail shops, and some cash sales at other locations, in Hong Kong and China, and (ii) **Indirect Sales:** sales of mainly Long Shelf-life Drinks and some selected Fresh Products, principally to distributors and third-party retailers in Hong Kong, China and overseas. We believe our two principal sales channels complement each other and both help us increase the market awareness of our brand and enable us to reach out to a diverse customer base.

#### ***(i) Strong retail sales network in Hong Kong***

Our well-established and strong retail sales network in Hong Kong has been an important factor for our growth and success. We operated 86, 89, 90 and 97 retail shops in Hong Kong as at 31 December 2011, 2012 and 2013 and the Latest Practicable Date, respectively. Our retail shops in Hong Kong, as at the Latest Practicable Date, were mostly located in convenient locations for our target customers, such as MTR stations, shopping malls and residential estates with high pedestrian flow. As at the Latest Practicable Date, our retail shops in Hong Kong comprise 50, 38 and 9 MTR shops, shopping mall shops and street shops, respectively. The strategic locations of our retail shops also enhance our brand awareness and serve as an excellent platform for marketing and promotion of our products. We believe our self-operated retail shops help us to reach out to our customers, keep us in close connection with the market, and provide us with first hand information of changing consumer preference and demand.

#### ***(ii) Experience in operating retail network in China, with refined business strategy focusing on our market positioning and retail shop locations in the PRC market***

We commenced our retail operation in China and opened our first retail shop in Shenzhen in 2007, followed by additional shops along the lines of the Metro systems in Guangzhou and in Foshan. As at the Latest Practicable Date, we had 25 self-operated retail shops in China, with 21 of which located in Guangzhou, one in Foshan and three in Shanghai, comprising one street shop, six shopping mall shops and 18 Metro shops in the Metro railway stations. Through our over six years of experience in retail operation in China, we have obtained deep knowledge about the PRC food and drink market in terms of consumer preference and our target customer groups, and have gained valuable experience on retail operation and logistic arrangements in China.

We have accumulated knowledge about our target customer group in China. Most of our principal Fresh Products are generally priced in the range of RMB9 to RMB36 in China as at the Latest Practicable Date, targeting the mid-to-high end segment of the China wellness drink market. When we started our retail operation in Shenzhen and Guangzhou, we adopted our operation model from Hong Kong and focused on opening retail shops in the Metro stations, and leased shops in 21 stations along the Metro lines in Guangzhou as a bundled arrangement with the relevant Metro

## BUSINESS

operator. Through over six years of experience in retail operation in China, we have learned that unlike MTR shops in Hong Kong where there is generally heavy traffic of target customers for our products, travellers on the local Metro in Guangzhou may not coincide with our target customer groups in China, which generally belong to the mid-to-high income group. In light of this experience, we have refined our retail network strategy to re-focus the locations of our retail shops in Guangzhou in 2013, and select only those locations with sufficient flow of mid-to-high income customers to open new retail shops, such as central business districts, more affluent commercial and residential areas, and selected stations of the Metro systems where there is sufficient flow of our target customers based on our experience. In 2013, we decided to close eight under-performing retail shops in China, which include three Metro shops, one shopping mall shop and one street shop in Guangzhou, two Metro shops in Shanghai and one shopping mall shop in Shenzhen, which had been loss-making, and we have agreed with the Guangzhou Metro operator in January 2014 to terminate all lease agreements of premises on which we were not operating our retail shops.

In addition to the selection of our retail shop location, we have also accumulated knowledge on consumer preference for the types and flavours of our products in China, which may not be identical or similar to that in Hong Kong. Further, we have gained experience in other aspects of operating retail shops in China, including logistics arrangement and local administrative matters, according to which we can streamline our retail operation in the locality.

We opened our first retail shop in Shanghai in 2012 which we believe has a similar consumer culture to that in Hong Kong. Our current retail shops in Shanghai are all located in shopping malls with high flow of our target customers.

Although we suffered losses for our PRC retail operation during the Track Record Period, we are experiencing improved results after we refined our strategy for our China retail operation as described above. We are confident that as we continuously optimise our retail network in China based on the knowledge and experience we gained and our “鴻福堂 (Hung Fook Tong)” brand gaining broader market recognition in China, our PRC retail operation will improve.

### ***(iii) Well-established relationship with distributors and third-party retailers for our Indirect Sales***

For our Indirect Sales business, we mainly sell our Long Shelf-life Drinks to third-party retailers, such as supermarkets and convenience stores, and distributors in Hong Kong; and to third-party retailers and distributors in China, and overseas distributors. In Hong Kong, we have established more than ten years of business relationship with most of our key third-party retailers, and more than 5 years business relationship with two well-established distributors who on-sell our products to corner stores, individual stores or chain stores. We believe that through the sales network of our key-account customers and distributors, our products can reach most of the Hong Kong consumers. We commenced our Indirect Sales business in China in 2002 and we have been continuously expanding our distribution networks in China, principally in Guangdong Province, and have developed close relationship with key-account customers which have extensive sales network locally or regionally. As at the Latest Practicable Date, we have established more than two years of business relationships with most of our key-account customers and distributors in China, covering 39 cities. As a result of our continuous effort, we have achieved significant growth in our distribution business in China during the Track Record Period. Revenue from our Indirect Sales in China increased from HK\$42.7 million in 2011 to HK\$85.9 million in 2013, representing a CAGR of 41.8% over the period.

In order to manage and strengthen our Indirect Sales, our sales and marketing teams collaborate with our distributors and third-party retailers to serve and support our distribution network. We strive to continuously develop our connections with existing distributors and third-party retailers to optimise our Indirect Sales business and establish connections with new ones. We cooperate closely

## BUSINESS

with our distributors and third-party retailers and regularly organise various marketing and promotional activities with them which are aimed at promoting our products and building our brand image across our local and overseas sales network.

We believe one of our key success factors is our effective management and strong business relationship with our key-account customers and distributors, and our continuous effort to expand our distribution networks in China, which help us to more effectively enhance our market penetration in China.

### **Integrated operation model with strong marketing and product roll-out capabilities**

We adopt an integrated operating model and directly control key aspects of our operation chain, including the processes of market research, product development, raw materials selection and procurement, production, quality control, marketing and packaging. Our integrated operation model helps us to closely monitor our sales and react quickly to evolving market trends and consumer preferences in order to enhance our product offering, roll out popular products, and strictly control our product quality.

Our business model comprises Direct Sales of mostly Fresh Products at our retail shops, and Indirect Sales of mainly our Long Shelf-life Drinks to our distributors and third-party retailers in Hong Kong, China and overseas. As a result of our extensive sales and distribution channels, we are always in touch with the market and understand the changing consumer demands and preferences. Our marketing and sales team works closely with our product development team and production team to quickly reflect feedbacks from our distributors, third-party retailers and end customers, incorporating such feedbacks in our product evaluation and development processes. With the support of marketing and sales team and feedback from frontline sales staff, we are able to launch advertising and promotional activities in respond to the changing market trend and consumer preference, and make timely adjustments to our marketing efforts.

We have a strong marketing capability, and we constantly strive for differentiation in the development and evolution of our products. We attentively study trends in consumer preferences and focus our development efforts on identifying product attributes that are most valued by our customers, such as product quality and safety assurance. We believe our integrated operation model enhance our ability to adjust and enrich our product offering to cater to the evolving tastes of consumers.

### **Stringent quality control and assurance systems and established relationship with quality suppliers**

We strongly believe in the benefits of a healthy diet and natural products, as reflected in our motto of “Naturally Made, Wholeheartedly Good (真心製造，自然流露)” and our “No additive (無添加)” approach in our production. We strive to produce our products with quality natural ingredients and without addition of any artificial preservatives, artificial colouring or MSG, and we make great effort in the selection of raw materials from suppliers and pay attention as to whether any artificial additives are added to the raw materials.

We are committed to high standards of quality of our products and employ stringent quality control and safety assurance procedures over the entire production process, from raw material selection and procurement, production to packaging. We produce our Fresh Products and Long Shelf-life Drinks at our Production Facilities. Our production facility in Shenzhen (Guanlan) has obtained the ISO22000:2005 food safety management system certification under stringent quality control and safety assurance systems. We make great efforts in ensuring the quality of our raw materials which is central to our product quality and we have established stable relationship with suppliers which we carefully selected. We also maintain high and consistent standard on quality control measures throughout our supply and procurement, production, sales network. We are in the process of setting



## BUSINESS

up (i) a new production facility in Suzhou, China, to cater for our planned expansion in Shanghai and Eastern China and Central China, and (ii) a new production facility in Tai Po, Hong Kong to replace our Tsuen Wan production facility (the lease for which will expire in December 2014), which are expected to commence full operation in September to October 2014. We believe that these new production facilities will further enhance our production efficiency and quality control.

### **Innovative and strong marketing capability**

We believe we have been a pioneer in the traditional Chinese herbal tea industry and our innovative capability helped to establish our Group as a modern and innovative wellness concept food and beverage enterprise.

We continuously introduce innovative ideas in our product development and marketing, including the introduction of new products, flavours and packaging. We established our first central production facility for production of our herbal drinks in 1989, and also introduced mass produced glass-bottled herbal drinks, plastic-bottled herbal drinks and squeezable tortoise herbal jelly in aluminium pack. Herbal tea was traditionally only prepared and consumed in herbal tea shops, and our innovative ideas greatly enhance their portability and convenience for delivery, storage, and distribution, and enable us to market and distribute our products through an extensive local and overseas sales network. We believe the innovation on our product packaging also enhances the quality control of our products by reducing the chance of contamination, and the popularity of our herbal tea products among younger customers accustomed to buying canned or bottled drinks.

Leveraging on our reputable brand and established sales network, in 2005, we began to roll out our Fresh Products at our retail shops, and our product offering expanded from traditional herbal drinks and tortoise and herbal jelly to other non-herbal drinks, Chinese-style soups, snacks, desserts, rice and noodles, which are marketed with our wellness concept at our retail shops.

These innovative ideas and our strong marketing capability have been instrumental in solidifying our market leadership position and ensure smooth and successful rollout of new products.

### **Experienced management team with strong track record of effective leadership and execution**

Our executive Directors and senior management team have extensive experience in the consumer product, food and beverage and wellness drink businesses as well as comprehensive understanding of market conditions. Three of our executive Directors are our founders. With the support of our senior management, they have led our transformation from a traditional tea shop to a modern food and beverage enterprise and will continue to be instrumental in our future development. On one hand, our management team is committed to preserving our brand heritage, and on the other, they sustain our brand relevance through innovation. Most members of our senior management have been in the fast moving consumer products industry for over ten years, and they have a strong proven track record of delivering growth and profitability. Other members of our senior management also have significant experience in key aspects of our operation, including marketing, human resources and corporate financial management.

We have appointed three independent non-executive Directors, whose expertise spans the fields of marketing and banking and finance, and will be invaluable to our growth as a public company.

## OUR STRATEGIES

We are a leading player in the Chinese herbal drinks, Chinese-style soups and tortoise herbal jelly market in Hong Kong and we aim to become a leader in such market in China. We intend to achieve this by pursuing the following strategies:

### **Further enhance our brand image through effective marketing strategy focusing on our healthy lifestyle concept, product safety and quality and further leverage on our membership system**

We believe successful branding is the key to our business development. We have developed “鴻福堂 (Hung Fook Tong)” brand into a well-recognised brand in Hong Kong through our effective and targeted advertising, marketing strategies and continuous emphasis on product safety and quality. To further enhance the popularity of our products in Hong Kong and our brand awareness and image in China, we will continue our effective and targeted marketing efforts.

Our marketing strategy aims to associate our brand with a healthy lifestyle and the benefits of herbal rooted in Chinese herbal heritage and natural products made with quality ingredients based on our core value of “Naturally Made, Wholeheartedly Good (真心製造，自然流露)” and our “No additive (無添加)” approach. We strive to produce healthy, nutritious and delicious products with quality natural ingredients. For the PRC market, we will continue to uphold our image as a Hong Kong-based brand with stringent quality control and product safety standards.

With rising health consciousness and focus on food safety among consumers, increasing disposable income and rapid urbanisation in China, we expect the market for Chinese wellness drinks and food products to continue to expand in the coming years. With our strong brand image and effective operation model, we are well-positioned to benefit from future growth of the Chinese wellness drinks and food product markets in Hong Kong and China. According to the Ipsos Report, the total retail sales value in Hong Kong of Chinese herbal drinks, soups and tortoise herbal jelly is expected to grow at a CAGR of 6.1%, 7.4% and 0.5%, respectively, from 2008 to 2017, while the trading value of Chinese herbal drink in China is expected to experience a robust growth at a CAGR of 20.0% during the same period.

In order to strengthen the promotion of our brand and products, we will continue to use multi-channel advertising programmes, promotional activities, and leverage on our existing and expanding “JIKA CLUB (自家 CLUB)” membership programme. We will also make use of innovative multimedia promotional channels such as internet social websites and mobile phone applications.

#### **(i) Further enhance our coupon and club membership systems as a promotion platform**

Building on the success of our coupon system and “JIKA CLUB (自家CLUB)” membership programme with over 380,000 members as at the Latest Practicable Date, we intend to further promote our coupons and membership cards to enhance customer loyalty, promote repeated visits and foster long term relationship with our customers. We intend to further strengthen the corporate and online promotion of our coupons and membership cards, and target corporate customers such as banks, insurance companies, professional associations and trade unions, which on-sell our coupons to their employees or their members as benefit, or present them to their customers for marketing and promotional purposes. We also intend to enhance our online shop which will provide convenient ordering system for our corporate customers.

Along with the upgrade of our POS system, we plan to introduce a more effective information technology system for our retail network in China with enhanced promotional functions and member security, such as the use of electronic coupons with better traceability and greater convenience. We also intend to roll out more club membership features, such as VIP membership privileges, referral programmes, birthday gifts to further promote our membership programme.

## BUSINESS

**(ii) Further increase our brand awareness and image with marketing campaign featuring our brand spokespersons**

We have engaged three well-known Hong Kong singers as our brand spokespersons. We will launch a series of marketing campaign with our spokespersons promoting our young and healthy image, including advertisements on public transportation, including buses, bus stations, MTR stations, which will be echoed by our in-shop promotion materials.

**(iii) Increase interactive promotion to consumers with physical and online channels**

We intend to carry out tasting meetings, targeting mid-to-high-end consumers, to try our new or promotional products, where we will take the opportunity to promote our products and our brand, and we will give promotional coupons to consumers attending such meetings to attract them to visit our retail shops.

We also plan to increase the use of popular online or mobile phone social platforms or applications to increase interactive promotion to our target consumers, in order to disseminate our product and promotion information and to promote our brand values.

**(iv) Conduct more joint promotion with our business partners**

We intend to collaborate with our business partners, such as credit card issuing banks, telecommunication companies and public transportation companies, to carry out joint promotion activities. By leveraging on their massive customer networks and databases, we believe we will be able to expand our reach to more potential customers.

Please see the section “Future Plans and Use of Proceeds” in this prospectus for the proceeds of the Global Offering that are planned to be used for promotion and marketing.

### **Continue to Optimise and Expand our extensive Direct Sales Channels in Hong Kong**

**(i) Enhance sales and profitability of our existing retail shops in Hong Kong**

We aim to improve the same-store sales of our existing retail shops by continuing our marketing efforts on our brand and products, refurbishing the layout and displays of our existing retail shops on a rolling basis, and enhancing our product offering. We currently intend to refurbish 25, 11 and 10 of our retail shops in Hong Kong in 2014, 2015 and 2016, respectively, based on the renewal time of the relevant leases, assuming that they can be successfully renewed. The refurbishment cost for each retail shop is estimated to be approximately HK\$0.4 million, HK\$0.5 million and HK\$0.5 million on average, in 2014, 2015 and 2016, respectively, and we expect to incur approximately HK\$10.5 million, HK\$5.0 million and HK\$5.2 million in the respective periods for such refurbishment, which will be financed by our internal resources and/or bank borrowing. As at the Latest Practicable Date, we have refurbished 12 of the 25 retail shops planned to be refurbished in 2014. When we refurbish our retail shops, we generally improve the overall design of the retail shop to provide a refreshing and spacious experience to our customers and upgrade the equipment at the retail shops to reduce the waiting time for the customers, where necessary. The refurbishment process generally takes 12 to 14 days and is planned and arranged so as to minimise business disruption to the operation of the relevant retail shops. In addition to our refurbishment plan, we will also continue to evaluate the performance of each of our retail shops, and try to arrange our human resources and product offering accordingly.

***(ii) Further expand our Direct Sales network in Hong Kong by opening retail shops***

As at the Latest Practicable Date, we maintained a network of 97 self-operated retail shops in Hong Kong, comprising of MTR shops, shopping mall shops and street shops. A majority of our existing shops are located in areas along the MTR lines. We plan to expand our geographical coverage in Hong Kong and intend to open approximately 25, 30 and 35 new retail shops (representing approximately 16, 22 and 26 net additional retail shops taking into account the approximate number of shops that we estimate may have to be closed due to expiry of the relevant leases) in Hong Kong in 2014, 2015 and 2016, respectively, mainly in districts where we currently have no presence or only a relatively small number of retail shops, which we expect will comprise MTR shops, shopping mall shops or street shops. These districts include Southern District, Central and Kowloon East. We also intend to open retail shops on the Hong Kong Island, including the Western District, where the pedestrian flow is expected to increase as a result of the expected completion of the MTR West Island Line and South Island Line in 2014 to 2016. Please see the section “Business — Direct Sales — Retail Shop Management — Implementation of our expansion plan for retail shops in Hong Kong and China” for details of our implementation plan, and “Future Plans and Use of Proceeds” for the proceeds of the Global Offering that are planned to be used for retail shop opening. The remaining capital requirement for opening retail shops will be funded by a combination of internal resources and bank loans.

In addition to opening new retail shops, we also intend to develop other Direct Sales channels in Hong Kong, including direct retail sales at schools.

***(iii) Further strengthen our corporate sales promotion***

We offer our product coupons and cash coupons to our corporate customers in Hong Kong including banks, insurance companies, professional associations and trade unions, which offer our coupons to their employees or their members as benefit or present them to customers for their marketing and promotional purposes.

We believe there is great potential for our sales through corporate channels and we aim to strengthen our corporate sales promotion by (i) strengthening promotion to our existing corporate customers, (ii) promoting to potential corporate customers by sales representative, (iii) encouraging referral by existing customers, and (iv) strengthening online promotions and online ordering capability for corporate promotion.

**Improve our sales and expand our market coverage in China**

We believe that as our “鴻福堂 (Hung Fook Tong)” brand gains recognition in China through our marketing efforts, we are able to differentiate ourselves from local producers of similar products, which will help us to capture the growth potential with the huge consumer market in China and penetrate into the Chinese wellness drinks and food market in China. We intend to adopt the

## BUSINESS

following strategies to capture the market potential of the Chinese wellness drink market in China and to turn around the loss-making results of our China retail operations during the Track Record Period, and we believe that our operation in China has significant growth potential to become a substantial revenue and profit contributor to our Group:

**(i) Expand and enhance our Indirect Sales network in China by:**

- expansion of Indirect Sales in Guangdong Province;
- expansion of Indirect Sales in Shanghai; and
- expansion of Indirect Sales in other PRC areas.

**(ii) Continue to optimise our retail shop network in China by:**

- relocating and optimising our retail shops in Guangzhou;
- expanding our retail shop network and opening retail shops under our joint venture operation in Shanghai; and
- opening at least ten retail shops in each of Guangzhou and Shanghai in the coming twelve months.

**(iii) Continue to build on the success of our popular Fresh Products and enhance our product offering to cater to the consumer preference in China;**

**(iv) Focus our brand marketing, positioning and sales effort in China; and**

**(v) Pursue selective strategic alliances and joint venture opportunities.**

Details of our strategies for the PRC market are as follows.

**(i) Expand and enhance our Indirect Sales network in China**

During the Track Record Period, we achieved remarkable growth in our Indirect Sales in China. Revenue from Indirect Sales in China increased from HK\$42.7 million in 2011 to HK\$85.9 million in 2013, representing a CAGR of 41.8% during the period, with a significant growth in sales of our Fresh Products through Indirect Sales, such as products of our Nourishing Deluxe Series (甘露系列). As at the Latest Practicable Date, we sold to nine third-party retailers and 59 distributors in China. In the past, we have mainly focused on distribution in the Major Guangdong Cities, where we generated 72.8% of our Indirect Sales revenue in China in 2013. We commenced our Indirect Sales in Shanghai in 2008, where we generated 16.6% of our Indirect Sales revenue in China in 2013, and we believe that there is ample potential for further expansion. For our Indirect Sales in China, we sell to (i) third-party retailers which are generally large retail chain stores, from whom we can obtain market information about our brand and products; and (ii) distributors, who purchase our products on wholesale basis and on-sell them to sub-distributors and/or retailers in regions in which they operate, which we believe is a cost-effective distribution channel to improve market penetration of our products. Such Indirect Sales channels have proven to be successful in enabling us to enhance our market penetration in China and shorten the lead time for introducing our products to new markets, and we will continue to utilise them for our expansion in China.

## BUSINESS

As we believe that there are ample business opportunities and growth potential for our Indirect Sales in China, we plan to further expand and strengthen our Indirect Sales network in both Guangdong Province and other areas where we have already started distributing our products but yet to build up a strong distribution network and market presence, in particular in major cities in Eastern and Southern China.

We intend to expand and strengthen our Indirect Sales network by further developing our relationship with existing key-account customers and engaging additional ones; increasing the penetration of our network in areas we have reached but have not fully covered; and expanding our Indirect Sales to areas not yet covered by our Indirect Sales network. For places where our distribution network currently covers, we intend to increase sales by engaging a larger number and wider range of key-account customers, including local and regional chain stores, such as supermarkets, pharmacies and snacks stores.

- **Expansion of Indirect Sales in Guangdong Province**

In Guangdong Province, we have so far mainly focused on more developed and populated or affluent districts and areas and have successfully established our Indirect Sales network. Leveraging on our established network, we intend to increase our network penetration into other districts and cities which we believe has a sufficient population of our target customers. We intend to achieve this by increasing the staff count of our local sales team and promoting sales to more new third-party retailers. In addition, we will continue to work closely with our existing distributors and also seek opportunities to increase sales of our products directly to our key-account customers and increase market penetration by selling to more individual third-party retailers such as local corner shops.

- **Expansion of Indirect Sales in Shanghai**

In Shanghai, our Indirect Sales were mainly made to distributors before 2013, and as we secured two major key-account customers in 2013, our Indirect Sales in Shanghai experienced significant growth from HK\$5.3 million in 2012 to HK\$14.3 million in 2013. We intend to secure sales to new key-account customers, such as large scale local and international supermarkets and convenient store chains, and sell our products directly to such customers who currently purchase our products from our local distributors. We believe that strengthening the sales to our key-account customers will allow us to build up our strategic relationship with them and leverage their extensive sales channels which will help to increase our sales and provide a platform to promote and launch our new products and enable us to gain access to end-consumer feedback more efficiently. As part of our strategy, we intend to develop closer relationships and maintain more frequent direct communications with our key-account customers and provide more support to our key-account customers to sell our products. By making such arrangement, we believe we will be able to establish a stronger foothold in the market by having a direct relationship with the key distribution channel operators. We believe our direct relationship with key-account customers will also complement to our sales to local distributors which usually sell to smaller third-party retailers and individual chain stores.

- **Expansion of Indirect Sales in other PRC areas**

In addition to Guangzhou, Shenzhen, Dongguan and Shanghai, we also sell our products to distributors in 35 cities covering 13 Provinces in China as at the Latest Practicable Date. Although sales in these cities were relatively insignificant during the Track Record Period, the consumer market in these cities present a significant opportunity for our future expansion and we believe we are well-positioned to capture these market opportunities. We intend to strengthen our collaboration with existing distributors and

## BUSINESS

engage new ones with established distribution channels in these markets. We will consider setting up regional sales offices to promote Indirect Sales depending on the progress of our sales performance in these markets. For example, we have established our sales office in Chengdu. We also intend to expand our Indirect Sales into cities and Provinces where we currently do not have a distribution network, such as Ningbo, Hangzhou and Dalian.

We believe that by expanding and strengthening our Indirect Sales network in China, we will increase the market penetration of our products and gain access to a wider group of end consumers. This will further enhance our brand awareness and establish a platform to support our future growth in China. Please see the section “Future Plans and Use of Proceeds” in this prospectus for the proceeds of the Global Offering that are planned to be used for expansion of our distribution network for Indirect Sales in China. We intend to use a combination of our internal resources and bank loans for the remaining capital requirement for the expansion plan for our Indirect Sales.

### **(ii) Continue to optimise our retail shop network in China**

As at the Latest Practicable Date, we had 25 self-operated retail shops in China, with 21 of which located in Guangzhou, one in Foshan and three in Shanghai. Our retail shops in China comprises one street shop, six shopping mall shops and 18 shops in Metro railway stations. In 2011, 2012, 2013, our PRC retail operation suffered losses before finance cost of HK\$6.3 million, HK\$6.5 million and HK\$3.2 million, respectively. The losses occurred mainly because (1) the size of our retail network in China has not reached economies of scale in relation to the fixed administration and head office cost; (2) we have not optimised our China retail operations as we focused our management resources in the past to expand our Indirect Sales business in China, which had on the other hand achieved significant growth and recorded a CAGR of 41.8% during the Track Record Period; and (3) we followed our retail network model in Hong Kong to open our retail shops mainly in the Shenzhen and Guangzhou Metro systems, which did not have the anticipated flow of our target customers group, and our product offering in such Metro shops were restricted to “non-heated” items. We will focus our effort in 2014 to increase the sales of our existing retail shops in China and expand our retail network to achieve economies of scale in order that our retail operation in China can achieve profitability.

In the future, we intend to optimise our retail network in China by:

- **Relocating and optimising our retail shops in Guangzhou**

Through over six years of retail operation in China, we have identified that, unlike our experience with MTR shops in Hong Kong, which generally have heavy traffic of our target customers, our potential customers in China generally belong to the mid-to-high income group, which may not be travellers on certain lines of the Metro systems in Shenzhen or Guangzhou. Based on such experience, we refined our retail network strategy in China and rationalised the location of our retail shops. In 2013, we decided to close eight under-performing retail shops in China, which include three Metro shops, one shopping mall shop and one street shop in Guangzhou, and two Metro shops in Shanghai and one shopping mall shop in Shenzhen, which have been loss-making; and in January 2014, we agreed with the Guangzhou Metro operator to terminate lease agreements for premises we had leased but were not operating our shops. We are experiencing improved results in China after we re-focused our shop locations to locations with sufficient flow of mid-to-high income customers. In 2013, our then existing 26 retail shops operating as of 31 December 2013 had in aggregate achieved break-even at shop level (meaning shop revenue exceeded cost of sales and all direct expenses of the shop). In the future, we will more strategically select locations to open our retail shops and will focus only on affluent commercial and residential areas and certain stations of the Metro systems.

## BUSINESS

We intend to open at least 10 self-operated retail shops in Guangzhou in the coming twelve months. We believe once we are able to improve the profitability at the shop level and increase the scale of our retail shops network, we should be able to achieve profitability for our retail shop network in China in the future. Our expansion plan for retail shops in Guangzhou are preliminary and is subject to relevant sales performance and other factors, and we may open new retail shops at a different pace if we are able to find the right locations and the new retail shops performance exceed our expectation.

- **Expanding our retail shop network in Shanghai and open retail shops under our joint venture operation in Shanghai**

After we successfully established our Indirect Sales network in Shanghai in 2008, we entered the Direct Sales market and opened our first retail shop in Shanghai in 2012. We believe Shanghai has a similar consumer culture and behaviour to that in Hong Kong and brands from Hong Kong are often regarded as premium in the market, which matches well with our product pricing and positioning in China. Currently, we operate three self-operated retail shops in Shanghai which are located in shopping malls or commercial buildings where there is flow of mid-to-high income consumer group which are our target customer group in China.

For expansion and management of our retail network in Shanghai, we will conduct our joint venture operation through Gold Medal. Gold Medal is owned as to 70% by our Group and as to 30% by our JV Partner. The director of our JV Partner was an executive director of a company listed on the Stock Exchange engaged in, among other things, sales and distribution of food and consumer products. He has substantial experience in management and marketing of fast-moving consumable goods in Hong Kong and China, with a track record of introducing international retail brands into the PRC market and well-established local business relationships, which we believe will enable us to streamline our expansion of Direct Sales in Shanghai. For details of our joint venture operation in Shanghai, please see the section “History and Development — Our Group Companies — Shanghai Joint Venture” in this prospectus. We intend to open at least 10 retail shops in Shanghai in Shopping Malls or commercial buildings with a flow of mid-to-high income consumer group through Gold Medal in the coming twelve months, and we will leverage on the experience of our JV Partner to select appropriate locations to open new shops, expedite administrative procedures and design our product offering attractive to the local customers. We believe that the establishment of our joint venture operation in Shanghai will ensure smooth implementation of our expansion in Shanghai and enhance the efficiency of the management of our retail shops there. In order to centralise the management of our retail shop operation in Shanghai, we also intend to enter into a management agreement with Gold Medal to manage the three existing retail shops in Shanghai currently operated by our Group.

- **Expanding our Direct Sales in other PRC cities**

Our effective two-channel sales model of Direct Sales and Indirect Sales is one of our key success factors. We first entered into the China market with our Indirect Sales business in the Guangdong Province in 2002 and then expanded to Shanghai in 2008. Our Direct Sales operation then followed with our first retail shop opened in Shenzhen and Shanghai in 2007 and 2012 respectively. We consider such strategy is effective, as both Direct Sales and Indirect Sales channels market and sell products under our “鴻福堂 (Hung Fook Tong)” brand. Expanding our Direct Sales network following the footsteps of our Indirect Sales can help our Direct Sales business leverage on our marketing and brand promotion effort for our Indirect Sales and can relatively reduce the market risk of our Direct Sales business when it enters into a new market. In this regard, we will continue to



## BUSINESS

follow the expansion plan of our Indirect Sales in other PRC cities when opportunities rise in future. In addition, with the planned infrastructure development in China, such as the high speed railway lines, we will also target to open retail shops in strategic locations in other cities, such as those along the high-speed railway lines and coastal regions in China to capture the expected flow of consumers with high purchasing power and to further enhance our brand awareness.

Please see the section “Future Plans and Use of Proceeds” in this prospectus for the proceeds of the Global Offering that are planned to be used for opening of the ten new retail shops in each of Guangdong Province and Shanghai in the coming twelve months.

***(iii) Continue to build on the success of our popular Fresh Products and enhance our product mix to cater to the consumer preference in China***

During the Track Record Period, we have experienced strong growth in the Indirect Sales in China, with a significant increase in our Indirect Sales of Fresh Products, such as Nourishing Deluxe (甘露系列) products. Distribution of our Fresh Products through our Indirect Sale channels in China increased from HK\$9.6 million for 2011 to HK\$35.6 million for 2013. We will also improve and continue to tailor our product mix for our retail shops in China based on our experience and knowledge gained from our operating experience to suit the taste and preference of the consumers in China, which can be different from those in Hong Kong.

***(iv) Focus our brand marketing, positioning and sales effort in China***

We position ourselves as a premium brand in the market and will continue to focus our effort on marketing to the mid-to-high income consumer segment in China, which we believe have growing purchasing power and demand for quality food and drink products and place emphasis on product safety, and continue to strengthen the recognition and image of our “鴻福堂 (Hung Fook Tong)” brand as a Hong Kong-based brand in China, which is generally associated by Mainland Chinese with quality and safety, which we believe will appeal to our target consumer group. We plan to recruit experienced sales and marketing professionals and set up a China retail team to spearhead the expansion of our China retail operation. In the past, we have not incurred any significant marketing expenses for our operation in China, and we intend to increase our marketing efforts and expenditure for the PRC market.

***(v) Pursue selective strategic alliances and joint venture opportunities***

As part of our expansion strategy in China, we plan to carefully explore and identify strategic alliance and collaboration opportunities with partners with established sales networks whose businesses are compatible to ours, which will allow us to leverage on their sales channels, customer base and local operation experience. We will identify suitable business opportunities based on factors such as brand recognition, development potential, complementary effect with our existing network or products, geographical coverage, target customer group, management and financial terms. If we are able to identify suitable business partners, we will consider to enter into strategic alliance or joint venture with them, which we believe can enable us to increase our market and geographical presence and further accelerate our growth in China.

### **Continue to Build on the Success of our Products and Enhance our Product Offering**

Our products include regular year-round products as well as seasonal products which we roll out in different seasons of the year. We will continue to enrich our product offering to meet the evolving consumer preference. While we believe that our products have long life-cycle and do not become obsolete easily, we develop new flavours of drinks and products on a regular basis to attract new customers. Our integrated operating model helps us to react quickly to market trends and changes and successfully rollout popular products.

Our strong brand reputation, extensive distribution network and integrated operating model provide us with a solid platform to launch new products in the market. We plan to leverage on our well-established platform to launch new flavours of existing drink products as well as related product lines such as herbal granules in sachets to diversify our product portfolio and reach a wider customer base, in particular younger customers.

### **Expand and Optimise our Production Capability**

As at the Latest Practicable Date, we have three production facilities which are located on leased premises in Hong Kong and China, with our Fresh Products sold in Hong Kong principally produced in our Tsuen Wan production facility and our Long Shelf-life Drinks and Fresh Products sold in China principally produced in our Shenzhen (Guanlan) production facility, and our PET bottles are produced at our Dongguan production facility. Please see the paragraph “Production — Production Facilities” below in this section for more details.

In light of our growth and expansion plan, we are in the process of setting up a new production facility in Suzhou, China, to cater for the expansion in Shanghai and other cities in Eastern China and Central China, and a new production facility in Tai Po, Hong Kong to replace our Tsuen Wan production facility, the lease of which will be expired in December 2014, and to further expand our production capacity to cater for the increased production requirement as we expand our Direct Sales and the two new production facilities are expected to commence full operation in September to October 2014. Our new production lines will be an improvement when compared with our existing production lines, to enhance production efficiency, safety assurance and quality control. We intend to use a combination of our internal resources and bank loans for the planned expansion and improvement of our production facilities. Please see the paragraph “Production — Production Facilities” below in this section for further details.

## **OUR PRODUCTS**

Our products include Fresh Products which are principally sold at our retail shops and Long Shelf-life Drinks which are primarily sold to our third-party retailers and distributors. We categorise our products as Fresh Products or Long Shelf-life Drinks generally by their production process and shelf-life. While we do not add artificial preservatives to our Fresh Products or Long Shelf-life Drinks, our Long Shelf-life Drinks are produced with ultra-high temperature sterilisation process and therefore have a relatively longer shelf-life. Our Fresh Products and Long Shelf-life Drinks are packaged with pre-printed labels which include information about the products, their ingredients and effects, but their packaging are slightly different. Some flavours of our drinks are sold in the form of both Fresh Products and Long Shelf-life Drinks with some difference in the mix and concentration of the ingredients.

Our Fresh Products comprise primarily Chinese herbal and non-herbal drinks, Chinese-style soups and tortoise herbal jelly products, and also include snacks, desserts, rice and noodles with Chinese or local flavours, and food products for Chinese festivals and joyous occasions. We aim to leverage on the convenient locations of our retail shops and provide a wide variety of healthy, nutritious and delicious Fresh Products for customers from breakfast to dinner and as full meal or as snacks.

## BUSINESS

Our Long Shelf-life Drinks comprise a variety of our Chinese herbal and non-herbal drinks with relatively longer shelf-life, pre-packaged in seal capped bottles with printed plastic labels. While traditional Chinese wellness drinks and food often require long preparation time and complicated preparation procedures, our wellness drinks are ready-to-consume with convenient packaging and can be stored for months generally.

Ancillary to our Fresh Products and Long Shelf-life Drinks, we are also engaged in the production of certain drink products for our OEM customer which are marketed primarily under its brand as OEM Products.

The table below sets forth a breakdown of our revenue generated from our different categories of products for the years indicated.

Revenue	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sales of Fresh Products	334,680	69.8	413,094	71.4	457,535	70.9
Sales of Long Shelf-life Drinks	135,507	28.3	158,538	27.4	177,304	27.5
Others	9,111	1.9	7,061	1.2	10,210	1.6
<b>Total</b>	<b><u>479,298</u></b>	<b><u>100.0</u></b>	<b><u>578,693</u></b>	<b><u>100.0</u></b>	<b><u>645,049</u></b>	<b><u>100.0</u></b>

### Fresh Products

Our Fresh Products comprise our drink products (which includes 67 flavours of Chinese herbal drinks and non-herbal drinks as at the Latest Practicable Date), Chinese-style soups, tortoise jelly, herbal jelly and other food products, including snacks, desserts, rice and noodles, and occasionally festive food products such as rice dumplings for Tuen Ng Festival and moon cakes for Mid-Autumn Festival and joyous occasion products. Our Fresh Products are entirely or largely produced with quality natural ingredients, and we strive to produce healthy, nutritious and delicious products with quality natural ingredients and without addition of any preservatives, artificial colouring or MSG. Our Fresh Products are principally sold at retail shops, and we model our retail shops to be one-stop shops providing a variety of Fresh Products for customers for their whole-day need from breakfast to dinner, and as full meal or as snacks.

In 2011, 2012 and 2013, sales of Fresh Products accounted for 69.8%, 71.4% and 70.9% of our total revenue, respectively. The table below shows a breakdown of our revenue generated from our different categories of Fresh Products during the Track Record Period.

Revenue	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Sales of Fresh Products</b>						
Drinks	119,111	35.6	153,556	37.2	189,646	41.4
Chinese-style soups	76,454	22.8	106,797	25.9	103,688	22.7
Tortoise/herbal jelly	62,578	18.7	67,519	16.3	62,778	13.7
Other food products ( <i>Note</i> )	76,537	22.9	85,222	20.6	101,423	22.2
<b>Total sales of Fresh Products</b>	<b><u>334,680</u></b>	<b><u>100.0</u></b>	<b><u>413,094</u></b>	<b><u>100.0</u></b>	<b><u>457,535</u></b>	<b><u>100.0</u></b>

*Note:* Other food products include snacks, desserts, rice and noodles and festive food products such as rice dumplings for Tuen Ng Festival and moon-cakes for Mid-Autumn Festival and joyous occasion products.

### ***Drinks***

Central to our brand and our mission to promote herbal tea culture are our Chinese herbal drinks. They contain ingredients which are considered as Chinese herbals or Chinese medicine, together with other ingredients, and are produced in accordance with original or modified Chinese recipe. The effect of Chinese herbal drinks has been recorded in traditional Chinese medicinal texts, such as Chinese Pharmacopoeia (中國藥典) and Compendium of Materia Medica (本草綱目), and are generally considered by Chinese as having medicinal or health benefits or nourishing effect on the human body.

Our non-herbal products are produced with quality ingredients other than Chinese medicines. A large number of our non-herbal drinks are nevertheless prepared based on traditional Chinese recipes which are believed to be nourishing to the human body, and we market them together with our Chinese herbal drinks under our overall Chinese wellness concept. As with our Chinese herbal drinks, we strive to produce healthy, nutritious and delicious products with quality natural ingredients and without addition of any artificial preservatives, artificial colouring or MSG, and we make great effort in the selection of raw materials from suppliers and pay attention as to whether any artificial additives are added to the raw materials. Our non-herbal drinks include soybean milk series and “Nourishing Deluxe” series (甘露系列). We produce our soybean milk products with organic Canadian soy bean. Products of the “Nourishing Deluxe” series (甘露系列) are creamy products produced with fresh fruits or ingredients such as bamboo fungus or Hokkaido milk. They are marketed as nourishing and refreshing and are particularly popular in the PRC market.

## BUSINESS

Principal products:

- Bitter Herbs Tea (廿四味)
- Canton Abrus Herb Drink (雞骨草)
- Spica Prunellae Drink (夏枯草)
- Qu Shi Tea (祛濕茶)
- Cold Relieving Tea for Fever (風熱感冒茶)
- Cough Relieving Tea (止咳茶)
- Hemp Seed Drink (火麻仁)
- Apple, Pear and Fig Tea (蘋果雪梨無花果茶)
- Mango Deluxe with Aloe Vera (蘆薈楊枝甘露)
- Mango Deluxe (楊枝甘露)
- Coconut Milk Drink with Bamboo Fungus and Snow Fungus (竹筴雪耳鮮椰露)
- Papaya Drink with Hokkaido Whole Milk and Lily Bulb (北海道牛乳百合木瓜露)
- Organic Soybean Milk with Oats (燕麥有機豆漿)
- Organic Soybean Milk with Black Sesame (黑芝麻有機豆漿)



Bitter Herbs Tea  
廿四味



Spica Prunellae Drink  
夏枯草



Canton Abrus Herb Drink  
雞骨草



Mango Deluxe  
楊枝甘露



Organic Soybean Milk  
with Black Sesame  
黑芝麻有機豆漿



Papaya Drink with  
Hokkaido Whole Milk and Lily Bulb  
北海道牛乳百合木瓜露

Approximate no. of products:

67

Typical shelf life:

3 to 30 days upon arrival at the shop

Retail price (without discount):

Hong Kong: HK\$14 to HK\$44

China: RMB9 to RMB21

## Chinese-style soups

Our Chinese-style soups are soups produced according to traditional or modified Chinese recipe. Chinese-style soups are considered by people in Southern China as an important part of a proper meal and are believed to provide nourishment to the body. In particular, long-boiled soup is considered as one of the signature dishes in Cantonese cuisine, and it is believed that after hours of simmering, the essences of the ingredients made up of different combination of meats and herbs are contained in the soup.

Principal products:

- Chicken Soup with Abalone, Sea Cucumber, Shark's Fin, Fish Maw and Bamboo Fungus (鮑參翅肚燉竹筴湯)
- Black Silky Chicken Soup with Fish Maw and Sea Whelk (花膠響螺煲竹絲雞湯)
- Pork Soup with Fish Maw, Sea Coconut, Chuan Bei and Lily Bulb (花膠海底椰川貝百合豬腱湯)
- Crocodile Soup with Chuan Bei and Loquat Leaves (川貝枇杷葉鱷魚肉湯)



Approximate no. of products:

19

Typical shelf life:

5 days to 40 days upon arrival at the shop

Retail price range (without discount):

Hong Kong: HK\$40 to HK\$65

China: RMB36

***Tortoise herbal jelly and other herbal jelly products***

Tortoise herbal jelly has a long history in the Chinese herbal culture and are traditionally believed to have nourishing and beneficial effects on the human body. Ingredients of our tortoise herbal jelly include tortoise plastron (龜板) and Tufuling (土茯苓) (*Smilacis Glabrae Rhizoma*), which are two valuable ingredients required according to our traditional formula of tortoise herbal jelly. Please see the paragraph “Quality Control — Incoming Quality Control on Raw Materials — Quality control of our tortoise herbal jelly” below in this section for details. We also produce other herbal jelly products, such as Chuan Bei, Sea Coconut and Loquat Jelly (海底椰川貝枇杷膏) which do not contain tortoise plastron.

Principal products:

- Lucid Ganoderma Tortoise Plastron Jelly (靈芝龜苓膏)
- Herbal Tortoise Plastron Jelly (藥製龜苓膏)
- Chuan Bei, Sea Coconut and Loquat Jelly (海底椰川貝枇杷膏)
- Squeezing Tortoise Plastron Jelly (唧唧龜苓膏)
- Children Squeezing Tortoise Plastron Jelly (兒童唧唧龜苓膏)

Approximate no. of products:

5

Typical shelf life:

4 days to 25 days upon arrival at the shop

*Note:* The shelf-life of Squeezing Tortoise Plastron Jelly and Children Squeezing Tortoise Plastron Jelly sold in Hong Kong is 275 days upon arrival at the shop

Retail price range (without discount):

Hong Kong: HK\$23 to HK\$58

China: RMB25



Lucid Ganoderma Tortoise Plastron Jelly  
靈芝龜苓膏



Herbal Tortoise Plastron Jelly  
藥製龜苓膏



Chuan Bei, Sea Coconut and Loquat Jelly  
海底椰川貝枇杷膏



Squeezing Tortoise Plastron Jelly  
唧唧龜苓膏

**Other food products**

In addition to our drink products, our Fresh Products also include desserts, congee, rice, noodles and snacks, which can serve as convenient meals. For example, our home-made style steamed rice, red rice and oats rice are used as ingredients, which provide a healthy savoury choice. We also offer some light refreshment products at our retail shops, which we source from third-party suppliers, including shaomai (燒賣), buns, which are traditional and iconic Cantonese snack. Products of our Joyous Series include home-made style stewed pork trotter and ginger in sweet vinegar which is traditional Chinese food for celebrating a new-born baby which is usually distributed to family members and friends.

**Dessert**

Principal products:

- Dessert with Apricot Kernel and Egg White (手磨杏仁蛋白茶)
- Dessert with Red Bean, Lotus Seed and Lily Bulb (蓮子百合紅豆沙)
- Dessert with Mug Bean and Kelp (海帶綠豆沙)
- Dessert with Bean Curd Sheet, Ginkgo and Egg (腐竹白果蛋花糖水)

Approximate no. of products: 7

Typical shelf-life:

3 to 40 days upon arrival at the shop

Retail price range (without discount):

Hong Kong: HK\$18 to HK\$24; China: RMB18

**Congee, rice, noodles and snacks**

Principal products:

- Oats Rice with Tremella, Wolfberries and Chicken (銀耳杞子滑雞燕麥飯)
- Red Rice with Steamed Pork Patty, Squid and Water Chestnut (土魷馬蹄蒸肉餅紅米飯)



Dessert with Mung Bean  
海帶綠豆沙



Dessert with Apricot Kernel and Egg White  
手磨杏仁蛋白茶



Oats Rice with Tremella, Wolfberries and Chicken  
銀耳杞子滑雞燕麥飯



Rice with Steamed Pork Patty,  
Squid and Water Chestnut  
土魷馬蹄蒸肉餅飯



Congee with Abalone and Chicken  
鮑魚雞粥



## BUSINESS

- Congee with Abalone and Chicken (鮑魚雞粥)
- Congee with Preserved Egg and Lean Pork (皮蛋瘦肉粥)

Approximately no. of products: 27

Typical shelf life: 3 to 7 days upon arrival at the shop

Retail price range (without discount):  
HK\$5 to HK\$36 (Mostly available in Hong Kong only)



Congee with Preserved Egg and Lean Pork  
皮蛋瘦肉粥

### Joyous Series

Principal products:

- Home Made Stewed Pork Trotter and Ginger in Sweet Vinegar Sauce (自家豬腳薑醋)
- Cooked Chicken with Chinese Wine (雞煮酒)

Approximate no. of products: 3

Typical shelf life: 5 to 20 days upon arrival at the shop

Retail price range (without discount):  
HK\$30 to HK\$55 (only available in Hong Kong)



Home Made Stewed Pork Trotter and  
Ginger in Sweet Vinegar  
自家豬腳薑醋



Cooked Chicken with Chinese Wine  
雞煮酒

### Festive Series

Principal products:

- Assorted Mango Puddings (楊枝甘露冰月盛宴)
- Turnip Pudding with Dried Scallop (瑤柱蘿蔔糕)
- Glutinous Rice Pudding (鴻運年糕)

Approximately no. of products: 12

Typical shelf life:  
13 to 47 days upon arrival at the shop

Retail price range (without discount):  
HK\$48 to HK\$168; RMB128



Assorted Mango Puddings  
楊枝甘露冰月盛宴



Turnip Pudding with Dried Scallop  
瑤柱蘿蔔糕

**Long Shelf-life Drinks**

Our Long Shelf-life Drinks comprise 65 flavours of drink products under our “鴻福堂 (Hung Fook Tong)” brand, including Chinese herbal drinks and non-herbal drinks, as at the Latest Practicable Date. In 2011, 2012 and 2013, sales of Long Shelf-life Drinks accounted for 28.3%, 27.4% and 27.5% of our total revenue, respectively.

Set forth below are our principal flavours of Long Shelf-life Drinks.

- Canton Love-pes Vine Drink (雞骨草(低糖))
- Common Selfheal Fruit-spike Drink (夏枯草(低糖))
- Chuan Bei Pipa with Honey Drink (川貝枇杷蜜)
- Acanthopanax Senticosi Drink (Lime)  
(刺五加草本飲品(青檸味))
- Acanthopanax Senticosi Drink (Lemon)  
(刺加力 (刺五加草本飲品檸檬味))
- Isatis Root Drink (板藍根)
- Squeezing Tortoise Plastron Jelly (唧唧龜苓膏)
- Herb Tea Drink (清涼茶)
- Gynura Drink (紫背天葵)
- Grosvenor Momordica Fruit Drink (羅漢果(無糖))
- Hawthorn with Black Plum Drink (山楂烏梅)
- Apple and Hawthorn Drink (山楂蘋果)
- Floral Herbal Tea Drink (五花茶)
- Chrysanthemum Honey Drink (百分百菊花蜜)
- Qing Bu Liang Drink (百合玉竹清補涼)



雞骨草(低糖)



無糖羅漢果



五花茶



百合玉竹清補涼

## BUSINESS

- Sugarcane and Sea Coconut with Carrot Drink (竹蔗甘筍海底椰)
- Imperatae Cane Drink (竹蔗茅根)
- Longan with Goji Berry Drink (杞子桂圓)
- Chrysanthemum and Chinese Wolfberry with Aloe Drink (杞菊蘆薈蜜)
- Brewing American Ginseng Drink (花旗蔘(無糖))
- Original Soybean Drink (濃香豆漿)
- Black Bean Drink (濃香黑豆漿)



杞子桂圓



竹蔗茅根

Approximate no. of products: 65

Typical shelf-life:  
8 to 14 months

Retail selling price:  
Hong Kong: HK\$4 (500 mL) to HK\$19 (1.5L)  
China: RMB4 (500 mL) to RMB6.5 (500 mL)



刺加力



濃香豆漿

### Other Products

Ancillary to the production of our Fresh Products and Long Shelf-life Drinks, during the Track Record Period, we were also engaged in the OEM production of a small number of drink products for our customers such as a cake shop chain and a convenience store chain in Hong Kong which are marketed under their brands. As at the Latest Practicable Date, we had only one OEM customer which is a well-known and major convenience store chain in Hong Kong and our OEM Products comprised 14 flavours of drinks. The production of the OEM Products is not the focus of our business, but we intend to continue this operation as we believe that this will solidify our close relationship with this customer, which has been a major key-account customer of our Long Shelf-life Drinks with a large and well-established network of retail outlets during the Track Record Period. Our Directors consider that if we do not produce these OEM products for our OEM customer, it is likely to approach our competitors to produce similar products for them in any event, and it is more beneficial for us to supply such OEM Products to this customer, which provide us with an additional source of revenue and strengthen the relationship between us and this major convenience store operator.

## BUSINESS

The revenue generated from the sales of the OEM Products in 2011, 2012 and 2013 was HK\$5.5 million, HK\$4.0 million and HK\$6.4 million, respectively, representing 1.2%, 0.7% and 1.0% of our total revenue for the respective year.

### SALES AND DISTRIBUTION

Through our operating history, we have established a wide range of Direct Sales and Indirect Sales channels for marketing and sales of our products in Hong Kong, China and overseas.

Our Direct Sales channels, which are principally for sales of our Fresh Products, comprise (i) cash sales at our retail shops in Hong Kong and China; (ii) redemption of coupons and stored value in pre-paid membership cards; and (iii) sales at locations other than our retail shops, for example exhibitions, sales booth and our online shop (for sales in Hong Kong only).

Our Indirect Sales channels, which are primarily for sales of our Long Shelf-life Drinks, comprise (i) sales to third-party retailers, such as our key-account customers (including a number of large and well-known chains of supermarkets and convenience stores in Hong Kong and China) and other retailers, such as restaurants, bakeries and grocery stores, and (ii) sales to distributors who on-sell them to sub-distributors or retailers in Hong Kong, China and overseas.

The following table shows a breakdown of revenue by our sales channels and by geographical locations for the periods indicated:

Revenue	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Direct Sales</b>						
Hong Kong	317,129	66.2	379,683	65.6	395,891	61.4
China	10,096	2.1	21,587	3.7	25,186	3.9
<b>Sub-total for Direct Sales</b>	<b>327,225</b>	<b>68.3</b>	<b>401,270</b>	<b>69.3</b>	<b>421,077</b>	<b>65.3</b>
<b>Indirect Sales</b>						
Hong Kong	87,347	18.2	105,425	18.2	111,367	17.3
China	42,689	8.9	51,353	8.9	85,948	13.3
Overseas	12,926	2.7	13,584	2.3	16,447	2.5
<b>Sub-total for Indirect Sales</b>	<b>142,962</b>	<b>29.8</b>	<b>170,362</b>	<b>29.4</b>	<b>213,762</b>	<b>33.1</b>
<b>Others (e.g. sales to OEM customers and franchisees)</b>	<b>9,111</b>	<b>1.9</b>	<b>7,061</b>	<b>1.3</b>	<b>10,210</b>	<b>1.6</b>
<b>TOTAL REVENUE</b>	<b>479,298</b>	<b>100.0</b>	<b>578,693</b>	<b>100.0</b>	<b>645,049</b>	<b>100.0</b>

## BUSINESS

### Sales

Our products are sold at our suggested retail prices. For Indirect Sales, we sell our products to third-party retailers and distributors at wholesale prices which are set at discount to our suggested retail prices. The discount rates generally take into account expenses for product listing, third-party retail outlet rebates and off-invoice discounts which are set off from our revenue. Sales of goods are recognised upon the transfer of risks and rewards of ownership, which generally occurs at the time when the products are delivered to customers and the title of goods has passed. The title to and ownership of products are passed to the customers upon receipts of the products by the end-customers in the case of Direct Sales, or upon delivering our products to third-party retailers or distributors in the case of Indirect Sales. We also offer specific discounts and rebate to promote sales. Such sale discount and rebates are net off from our revenue in the relevant accounts. After receipt of products by the third-party retailers or distributors, we will not be responsible for any unsold stock held by them which cannot be refunded or returned to us. Only defective products may be returned, subject to review and agreement between us and the third-party retailers or distributors.

According to our accounting policy, the revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of rebates, returns, award credits, discounts and value added taxes (if any). Revenue is recognised when the amount of revenue can be reliably measured. It is probable that future economic benefits will flow to the entity and upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed. When a right of return exists, revenue is recognised when a reasonable estimate of returns can be made. In 2011, 2012 and 2013, we recorded forfeited income, meaning the revenue recognised upon the expiry of pre-paid coupons and membership card values, of HK\$3.8 million, HK\$12.4 million and HK\$10.3 million, respectively, representing 0.8%, 2.1% and 1.6% of our revenue or 1.2%, 3.1% or 2.4% of our Direct Sales revenue in the respective years. We confirm that our revenue recognition policy is appropriate and in accordance with Hong Kong Accounting Standard 18 "Revenue".

### Geographic coverage

During the Track Record Period, our sales are principally generated from the Direct Sales and Indirect Sales of our products in Hong Kong and China. In addition, we sell our Long Shelf-life Drinks to distributors in Macau, the United States, Malaysia, Canada, Australia, New Zealand, the Philippines and Taiwan, where they on-sell to local sub-distributors, retailers or end-customers. We also sell our Long Shelf-life Drinks to some traders or distributors incorporated in Hong Kong which export and sell them to other overseas countries during the Track Record Period, and such sales are recognised as our sales in Hong Kong to such distributors, although the products are ultimately exported and on-sold at the relevant overseas countries by the distributor. The table below shows a breakdown of our revenue by geographical segments for the periods indicated.

Revenue	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	412,983	86.2	492,060	85.0	517,303	80.2
PRC	53,389	11.1	73,049	12.6	111,299	17.3
Overseas	12,926	2.7	13,584	2.4	16,447	2.5
<b>Total Revenue</b>	<b>479,298</b>	<b>100.0</b>	<b>578,693</b>	<b>100.0</b>	<b>645,049</b>	<b>100.0</b>

## BUSINESS

### DIRECT SALES

Our Direct Sales comprise (i) cash sales at our retail shops in Hong Kong and China; (ii) sales through redemption of coupons and stored value in pre-paid membership cards; and (iii) cash sales at locations other than our retail shops, such as exhibitions, sales booths and our online store (for sales in Hong Kong only). The table below shows a breakdown of our revenue from Direct Sales by different channels for the periods indicated.

Revenue	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Direct Sales</b>						
Cash sales at retail shops	161,786	49.5	192,178	47.9	202,103	48.0
Sales through redemption of coupons and pre-paid membership card	158,129	48.3	201,757	50.3	213,554	50.7
Other cash sales	7,310	2.2	7,335	1.8	5,420	1.3
<b>Total Direct Sales Revenue</b>	<b>327,225</b>	<b>100.0</b>	<b>401,270</b>	<b>100.0</b>	<b>421,077</b>	<b>100.0</b>

### Our Retail Shops

Our Direct Sales network consisted of 97 and 25 self-operated retail shops in Hong Kong and China, respectively, as at the Latest Practicable Date.

Our retail shops market and sell mainly our Fresh Products and a small selection of our Long Shelf-life Drinks. We also sell certain food products at our retail shops which we purchase from third-party suppliers such as rice dumpling, buns, traditional Chinese dried fruit snacks and sweets at our retail shops.

The design, spacing, layout and product display of all of our retail shops follow guidelines set by our head office, which requires our retail shops to present a consistent visual image, particularly through the design and colour of the shop fronts, backdrop and product display. The current design of our retail shops is in wood and earthy tone, with a touch of natural light green colour with decoration of green plants to align with our belief in the benefit of natural products and lifestyles, and we try to fuse the Chinese herbal tradition into a modern atmosphere. We also provide bilingual materials at our retail shops to educate customers on the traditional Chinese herbal concepts. Our retail shop display is regularly reviewed by our visual merchandising team.

Our retail shops are installed with open chillers to provide customers with easy reach of our products and display space of a large quantity of products. To cope with our customers' demand for hot food and drinks, most of our retail shops have high-efficient warmers which are used to re-heat products.

## BUSINESS

The table below sets forth the number of our retail shops by type of shop and geographical location for the time/periods indicated.

	Year								
	2011			2012			2013		
	Hong Kong	China	Total	Hong Kong	China	Total	Hong Kong	China	Total
<b>Number of retail shops*</b>									
Number at the beginning of the year	77	8	85	86	15	101	89	32	121
Number added during the year	12	9	21	5	26	31	6	5	11
Number closed during the year	3	2	5	2	9	11	5	10	15
<b>Total at the end of the year</b>	<b>86</b>	<b>15</b>	<b>101</b>	<b>89</b>	<b>32</b>	<b>121</b>	<b>90</b>	<b>27</b>	<b>117</b>

\* The number of shops at a time represents the number of shops which have commenced operation at that time, and does not include cases where the shop premises have been leased but actual operation has not commenced at the relevant time.

During the Track Record Period, reasons for closure of our retail shops generally included (i) expiry of the relevant leases which cannot be renewed, and (ii) under-performance of the relevant retail shops which were loss-making. In 2013, we have closed eight under-performing shops in China as we refined our PRC retail network strategy, and two other shops were closed as the relevant leases could not be renewed. Please see the paragraph “Our Strategies — Improve our sales and expand our market coverage in China” above in this section.

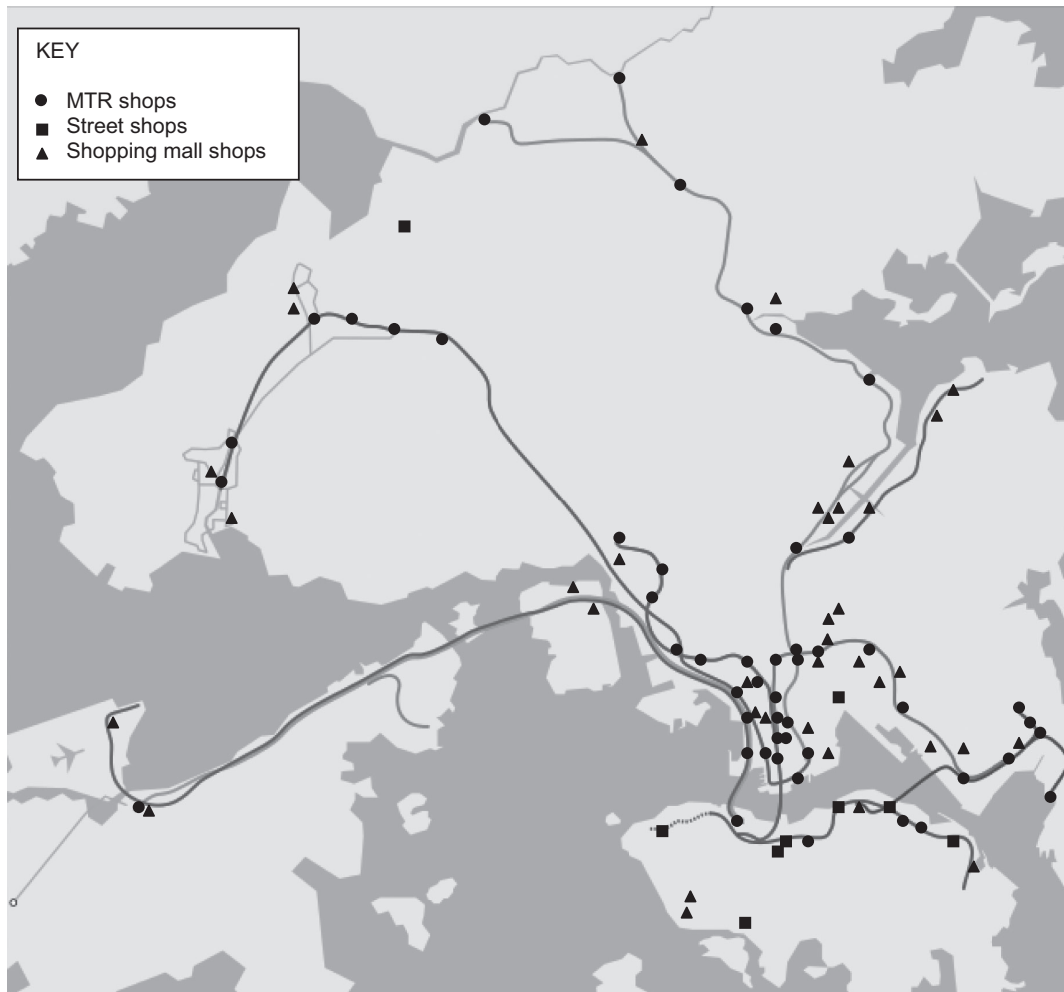
### ***Retail shops in Hong Kong***

As at the Latest Practicable Date, we had 97 self-operated retail shops in Hong Kong, comprising nine street shops, which are located on street level with shop front on the streets, 38 shopping mall shops, which are located inside shopping malls or arcades in commercial complexes, residential estates or other buildings, and 50 MTR shops which are located in MTR stations. We believe the locations of our retail shops are convenient for our target customers, and we benefit from the high pedestrian flow and the promotion and marketing activities of the shopping malls. Our retail shops in Hong Kong typically have GFA ranging from approximately 11 to 85 sq.m..

We have installed cozy seating with tables for customers to relax and consume our products in 14 of our shops in Hong Kong as at the Latest Practicable Date, mostly shopping mall shops. To provide a more spacious environment, the retail area for customers is enlarged in recently renovated retail shops. In some of our street shops or shopping mall shops which are larger in area, we design them as concept stores in order to bring customers a homey feeling by integrating the concepts of leisure, relaxation, and healthy dining, with internet access and a mini book corner in the shop with the aim of providing our customers a space to take a break from their busy lives. Customers can pay by cash, credit card, our membership card or Octopus payment systems, and our recently renovated shops are usually installed with extra cashier machine to shorten queuing time for our customers.

## BUSINESS

Set forth below is a map showing the approximate locations of our retail shops in Hong Kong as at the Latest Practicable Date:



### ***Retail shops in China***

As at the Latest Practicable Date, we had 25 self-operated retail shops in China, with 21 of them located in Guangzhou, one in Foshan and three in Shanghai, comprising one street shops, six Shopping Mall shops and 18 Metro shops, which are located in Metro railway stations. Our retail shops in China have GFA ranging from approximately 6 to 92 sq.m. and are decorated with similar design as our Hong Kong shops to portray a consistent brand image and shopping environment. Customers can pay by cash, credit card and our membership card at our retail shops. The product offering at our retail shops in China is adjusted based on the local consumer preference and is not entirely the same as that in our Hong Kong retail shops.

### **Retail Shop Management**

We believe that effective management of our retail shop network is important to our success. The head office of our retail operation and management division is located in Hong Kong and is responsible for the formulation of our overall sales strategy and pricing policy, planning and oversight of our sales operations, coordination of sales effort among different regions and overall management of our retail shop network.



## BUSINESS

We place strong emphasis on maintaining our brand recognition and a consistent brand image. All of our retail shops adopt a consistent design and layout scheme, use our promotional and marketing brochures and materials. Our regional sales teams conduct on-site inspections on randomly selected retail shops to ensure that our sales strategies and policies are applied.

The leasing team of our retail marketing and retail operation departments monitors the tenancies for our retail shops. It keeps track of our rental expenses and conditions of our existing leases and stays informed about the local property market, which is important for evaluation of current retail shop premises and seeking of new shop locations.

### ***Management of retail shops in Hong Kong***

Under our retail operation and management division, our retail operation department and retail management department in Hong Kong are responsible for retail support and internal audit of our retail shops in Hong Kong. As at 31 December 2013, we had 502 sales staff for our retail shop operation in Hong Kong.

Our 97 retail shops in Hong Kong as at the Latest Practicable Date are divided into four regional sales teams, each headed by a senior district officer or district officer, which are responsible for the implementation of our sales strategy and policy at the district level and directly coordinate with our retail shops. Each of these regional sales teams is managed by a district officer, who supervises the management and operation of the retail shops. The shop manager of each of our retail shops reports to the district officer who oversees the relevant retail shop.

Generally, the shop manager of each of our retail shops in Hong Kong keeps track of the quantity of products sold and redeemed generally after the closing of our shop every day and inspects the stock for their physical appearance and expiry dates, and place internal orders for the Fresh Products with our Tsuen Wan production facility through our POS system, based on the daily sales of the shop, and the products ordered are generally delivered to the relevant shop on the next following day.

### ***Management of retail shops in China***

Our 25 retail shops in China as at the Latest Practicable Date are managed by our retail business department in China, led by an assistant manager and an officer stationed in Guangzhou and a sales manager stationed in Shanghai. In particular, our 22 retail shops in Guangdong Province are divided into three sales teams, each covering seven to eight shops and managed by a district officer. As at 31 December 2013, we have 83 sales staff for our retail shop operation in China.

The shop managers of our retail shops in China place internal orders for products with our Shenzhen (Guanlan) production plant through our POS system based on their sales and redemption volume generally every two to three days, and the products are delivered two to four times a week depending on the shop location.

Our Guangzhou sales managers have weekly meeting with our head of retail operation and management division in Hong Kong to discuss the performance of our PRC retail shops. Apart from directly employing employees by ourselves, we also engage labour service agencies for the employment of our sales staff in China during the Track Record Period. Under the relevant labour despatch arrangement, the agencies enter into labour contracts with the despatched personnel; we are obliged to pay salaries, and the agencies contribute the statutory social insurances for the relevant labour on our behalf. For both direct employment and employment through labour service agencies, our Hong Kong staff development department provides training for our managers and sales staff in Guangzhou every month and our sales managers in Shanghai provide training to our staff in Shanghai.

### ***Site selection and opening of retail shop***

We consider identifying a suitable location for our retail shops to be crucial to our success. The factors that we take into account in selecting a new retail shop location include premises size and accessibility of the location to our target customers, spending patterns of our target customers, estimated customer flow, cost of set-up, geographic coverage of the location compared to that of our existing retail shops to avoid any competition and cannibalisation among our retail shops, and proximity to our competitors. Most of our existing retail shops in Hong Kong are situated at convenient locations such as MTR stations, shopping malls and residential estates with high pedestrian flow.

Through our six years of experience in operating retail shops in China, we have obtained deep knowledge about the PRC food and drink market in terms of consumer preference and our target customer groups, and have gained valuable experience on retail operation and logistic arrangements in China. We have learned that, unlike our experience with opening MTR shops along the MTR lines in Hong Kong, all of which generally have high flow of customers with considerable purchasing power of our products, travellers on the Metro systems in China may not necessarily coincide with our target customer groups, which generally belong to the mid-to-high income group in China.

In 2013, we decided to close eight under-performing retail shops in China, which include three Metro shops, one shopping mall shop and one street shop in Guangzhou, two Metro shops in Shanghai and one shopping mall shop in Shenzhen, which have been loss-making; and in January 2014, we agreed with the Guangzhou Metro operator to terminate lease agreements for premises on which we were not operating our shops. We have refined our strategy to maintain and open street shops or shops-in-shops in mid-to-high end shopping malls in China in future instead of Metro shops, as we believe this will better capture the consumption market of our target customer group.

Our Directors and leasing team of marketing department and retail operation department are involved in the site selection process, including the evaluation, inspection and approval of each retail shop location prior to development. We consider carefully and conservatively with respect to our committed capital expenditure and our estimated return on investment. We choose each site strategically in order to increase our market penetration, attract customers from our competitors while avoiding dilution of customer traffic among our own retail shops. Our retail operation department in Hong Kong also oversees the opening process of retail shop in Guangdong Province. Opening process of retail shops in Shanghai is managed by our sales manager stationed there. The typical lead time from the signing of the lease agreement to the opening of a retail shop in Hong Kong is approximately four to eight weeks. The typical lead time for such process in China is approximately two to eight months, including the time required for obtaining the relevant licence.

Once we have identified a suitable location for a new shop, we will enter into lease agreement for the shop, refurbish or renovate the premises if necessary, decorate the shop with our thematic design, set up the necessary display counter and equipment, arrange for the staffing and apply for the necessary licences for the shop.

### ***Implementation of our expansion plan for retail shops in Hong Kong and China***

Our expansion plan for retail shops is set forth in the paragraph “Our Strategies” above in this section. Our planned new retail shops in Hong Kong and China are expected to be opened on a rolling basis in accordance with our usual retail shop opening procedure described above.

We intend to open approximately 25, 30 and 35 new retail shops (representing approximately 16, 22 and 26 net additional retail shops taking into account the approximate number of shops that we estimate may have to be closed due to the expiry of the relevant lease) in Hong Kong in 2014, 2015 and 2016, respectively. We expect that the opening of each new retail shop in Hong Kong will require, on average, capital expenditure of approximately HK\$0.8 million. The total planned capital expenditure in 2014, 2015 and 2016 for the opening our new retail shop in Hong Kong is expected to

## BUSINESS

be approximately HK\$18 million, HK\$24 million and HK\$30 million. As part of our expansion plan for 2014, we have already opened 13 retail shops in Hong Kong since 1 January 2014 up to the Latest Practicable Date and we expect to open around four retail shops from the Latest Practicable Date to the Listing Date and eight retail shops from the Listing Date to the end of 2014. For our retail network in China, we expect to open at least ten new retail shops in each of Guangzhou and Shanghai in the coming twelve months. It is estimated that the opening of each retail shop in Guangzhou and Shanghai will require, on average, capital expenditure of approximately HK\$0.4 million and HK\$0.5 million, respectively and therefore the total planned capital expenditure for our new retail shop opening in China in the coming twelve months is expected to be approximately HK\$9 million.

When we evaluate the performance of our new retail shops, we may consider the breakeven period or investment payback period of the relevant shops. We consider breakeven period to be the period after which the retail shop's monthly revenue is at least equal to its monthly expenses. For the retail shops we opened in Hong Kong during the Track Record Period which have achieved breakeven, the breakeven period is generally two to 14 months. We consider investment payback period as the time it takes for the accumulated net profit from a retail shop to cover the costs of opening and operating the retail shop for the period, including incurred capital expenditures and ongoing cash and non-cash operating expenses. For the retail shops we opened during the Track Record Period which have achieved investment payback, the investment payback period was generally within or around 14 months. We expect that the new retail shops that we plan to open in Hong Kong will have similar breakeven period and investment payback period as the retail shops we opened during the Track Record Period as set out above<sup>(1)</sup>.

In China, our retail operations incurred a loss before finance cost of HK\$3.2 million in 2013. As set forth above, we refined our business strategy and focus our new shops at locations with sufficient flow of mid-to-high income customers. As at Latest Practicable Date, we had 25 self-operated retail shops in China, which, in aggregate, were able to achieve breakeven (as defined above) in 2013. From 2014 onwards, we intend to adopt the similar evaluation as in Hong Kong when opening new shops in China. We aim that our new retail shops in China will have breakeven period and an investment payback period of which are similar to those for our Hong Kong shops set out above<sup>(2)</sup>. Our objective is to achieve profitability for our retail shops in China in 2014.

### **Sales through Redemption of Coupons and Stored Value in Pre-paid Membership Cards**

We started our sales through coupons in around 2004 and pre-paid membership cards in 2008, respectively, to enhance customer loyalty, promote repeated visits and foster long term relationship with our customers, and we have developed our coupon and membership card systems to support such sales. Sales through redemption of coupons and stored values in pre-paid membership cards contributed to 33.0%, 34.9% and 33.1% of our revenue in 2011, 2012 and 2013, respectively.

#### *Notes:*

- (1) In arriving at our expected investment payback period, we have assumed that (i) the business turnover of our new retail shop would reach our expectation (based on past experience); (ii) no material infrastructural changes will be carried out nearby; and (iii) there will be: (a) no material increase in renovation and labour costs; (b) no material adverse change in consumers' preference in the market and (c) no delay in obtaining the required licences and permits under the relevant laws and regulations.
- (2) In arriving at our expected investment payback period, we have assumed that (i) our brand recognition in China has been enhanced at our expected pace; (ii) the business turnover of our new retail shop would reach our expectation (based on past experience); and (iii) there will be: (a) no material infrastructural changes will be carried out nearby; (b) no vicious competition with our existing retail shops; (c) no material increase in renovation and labour costs; (d) no material adverse change in consumers' preference in the market; and (e) no delay in obtaining the required licences and permits under the relevant laws and regulations.

## BUSINESS

Our customers can redeem the coupons or stored value in pre-paid membership cards purchased in Hong Kong and Guangdong Province for our products at our retail shops in Hong Kong and Guangdong Province, respectively. The paper coupons purchased in Hong Kong generally have validity period ranging from seven to 12 months from date of purchase, and stored value in the pre-paid membership cards issued in Hong Kong can be redeemed within two years following the date of issuance or the date of last transaction, whichever is later. We also offer electronic coupons for certain products, which have validity period of six months or twelve months. With respect to our coupons and value in pre-paid membership cards issued in Hong Kong that have expired, we are not legally obliged to accept them, make any refund or extend the validity period. To comply with the relevant PRC laws, the expiry date for our coupons sold in Guangdong Province is three years and there is no expiry date for value stored in pre-paid membership cards issued in China. The validity periods of our coupons and stored values in membership cards are in line with the industry norm, according to the Ipsos Report. Our Directors confirm that, in relation to the operation of our coupon and pre-paid membership card systems, there has been no legal claim against us as at the Latest Practicable Date, and we have received less than 20 founded complaints from our customers each year during the Track Record Period in relation to the lack of stock of the relevant products at the specific retail shops, the errors of the information systems for the coupons and pre-paid membership cards or the miscommunication between our staff and the customers. Such complaints were all settled by redirecting the relevant customer to redeem products at another retail shop of ours or on another date; and, to the best of our Directors' knowledge and experience in the industry, represent a low level of complaints. In relation to certain complaints regarding the terms of our pre-paid membership cards, our Directors confirm, to the best of their knowledge and belief and based on (i) the advice by its legal advisers as to Hong Kong law on the interpretation of the Trade Description Ordinance (Chapter 362 of the Laws of Hong Kong), (ii) our practice of providing to our customers the relevant terms and conditions in clear, unambiguous and intelligible language in Chinese and English and (iii) the requirement for the customers to read and acknowledge the terms upon application for the membership cards, that our Company has complied with the Trade Description Ordinance in relation to the sales and promotion of the pre-paid membership cards. During the Track Record Period, we were aware of isolated cases of similar complaints in relation to the remaining balance and the cancellation fee of the pre-paid membership cards. Considering the scale of our business operation and our membership club with 380,000 members as at the Latest Practicable Date, our Directors are of the view that the isolated incidents of complaints are insignificant and no such complaint has resulted in any material adverse impact on our Group and our business.

Prepayments made by our customers into membership cards or coupons represent advances from customers, which are recorded as receipts in advance in our combined statements of financial position, and revenue is recognised when our customers redeem the coupons or stored value in their membership cards for our products. Receipts in advance from such prepayments were HK\$78.4 million, HK\$73.2 million and HK\$105.5 million as at 31 December 2011, 2012 and 2013, respectively. We implement a contractual expiry policy for these coupons and stored value in pre-paid cards under which any unutilised prepayments are fully recognised in combined statement of comprehensive income upon their expiry. The amounts which represent products yet to be redeemed will be recorded as liability. As customers are not entitled to redeem products after expiry, we fully recognise such prepayment after the expiry date as revenue from expired coupons and pre-paid membership card values in the income statement, which is in line with the industry norm according to the Ipsos Report and to the best of the experience and knowledge of our Directors in the industry. As at 31 December 2013, we had receipts in advance of HK\$105.5 million, comprising HK\$77.5 million of prepayment by our customers for coupons and HK\$28.0 million of prepayment as stored values in membership cards. In respect of the HK\$77.5 million receipts in advance for coupons, approximately HK\$73.6 million will expire within 12 months (by the end of 2014) and approximately HK\$3.9 million will expire between 12 months and 24 months (by the end of 2015). Of the HK\$28.0 million receipts in advance for stored values in membership cards as at 31 December 2013, HK\$22.9 million were stored value in the pre-paid membership cards issued in Hong Kong, which can be redeemed within two years following the date of issuance or the date of last transaction, whichever is later; and HK\$5.1 million

## BUSINESS

were stored value in the pre-paid membership cards issued in China, which have no expiry date, pursuant to the relevant PRC laws. For the years ended 31 December 2011, 2012 and 2013, revenue recognised upon the expiry of coupons or stored value in membership cards were HK\$3.8 million, HK\$12.4 million and HK\$10.3 million, respectively, representing 0.8%, 2.1% and 1.6% of our revenue or 1.2%, 3.1% or 2.4% of our Direct Sales revenue. For 2011, 2012 and 2013, we recorded forfeiture rates (defined as revenue recognised upon the expiry of pre-paid coupons/membership card values divided by sales of pre-paid coupons and membership cards during the year) of 2.1%, 6.3% and 4.2%, respectively. During the Track Record Period, we have applied our revenue recognition policy and prepayment management policy in a consistent manner, and our Directors believe that the forfeiture rates are consistent with the industry norm. For more details, please see Note 25 to the Accountant's Report of our Group in Appendix IA to this prospectus.

We consider that the recognition of unutilised pre-paid coupons/membership card values as revenue upon their expiry (i.e. the forfeited income) is income generated from our ordinary and usual course of business, on the basis that (i) the forfeited income is generated from sales through our pre-paid coupons and membership cards, which is a mode of sales that is an integral part of the ordinary operation of our Direct Sales, which is our continuing principal course of business, rather than an incidental source; and the use of pre-paid coupons and membership cards is common in the food and beverage retail industry; (ii) the timing of the recognition of such forfeited income is not arbitrary nor at our Directors' discretion, but is determined by the time of expiry of such pre-paid coupons/membership card value when the customers are no longer legally entitled to make redemption, and our corresponding liability ends; (iii) according to the Ipsos Report and to the best of the knowledge and experience of our Directors in the industry, it is an industry norm that retailers in the industry recognise such forfeited income when the pre-paid coupons expire as part of their business operation, and our forfeiture rate (as defined above) during the Track Record Period, and the validity periods of our pre-paid coupons and membership card values were also in line with industry norms; (iv) such recognition policy adopted by us is in line with the relevant policy adopted by various companies listed on the Stock Exchange; and (v) the forfeiture income is recognised as revenue generated in the ordinary course of business according to our accounting policy set out in "Revenue recognition" in the Accountant's Report of our Group in Appendix IA to this prospectus, and such policy adopted by us complies with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants and has been applied by us consistently throughout the Track Record Period.

Most of our product coupons and stored values in pre-paid membership cards are redeemed for Fresh Products at our retail shops. As our Fresh Products generally have a relatively short shelf-life, we only maintain an appropriate level of inventory of such products based on the sales and redemption at our retail shops, in order to ensure their freshness, for details of which please see the paragraph "Inventory Control — Inventory Control of our Fresh Products" below in this section. Since the introduction of our pre-paid coupons and membership cards, we have generally been able to meet the redemption request of our customers, and based on our experience and track record of redemption, we believe that our inventory is sufficient to meet the redemption demand of our customers. As our pre-paid coupons and membership cards are mostly redeemable for Fresh Products, our Directors believe it is highly unlikely that our customers will redeem all of their coupons or pre-paid membership card value at the same time, as our Fresh Products have a relatively short shelf-life and have to be consumed after a relatively short time after they are redeemed. We believe as we have sufficient financial resources and extra production capacity for the production of Fresh Products, we will be able to produce sufficient quantity of Fresh Products to satisfy the demand of the customers even in the event that there is substantial increase in redemption demand by our customers. We also monitor the level of our liabilities from our outstanding coupons and pre-paid membership cards to ensure that we have sufficient resources to meet the expected demands. Despite the above, in the unlikely event that all coupons and membership card holders demand for redemption at the same time, our retail shops may not be able to satisfy their requests all at once. For the relevant risk, please see the section "Risk Factors — We maintain a substantial amount of

## BUSINESS

outstanding coupons and stored values in membership cards. There may be disputes with our customers in relation to the terms and conditions on the use and cancellation of such coupons and membership cards. If a large number of coupon and membership card holders seek to redeem their coupons and stored value in membership card at our retail shops, we may not have sufficient stock in our retail shops to fulfil the redemption by our customers, which may lead to an adverse impact on our reputation, business and results of operation” in this prospectus.

### ***Coupons***

We issue drink, soup and tortoise herbal jelly and festive product coupons in Hong Kong, and drink and soup coupons in Guangdong Province which can be redeemed for the respective types of products at our retail shops in Hong Kong and Guangdong Province, respectively. We promote our coupons at our retail shops in Hong Kong and Guangdong Province, at our online store, and through corporate promotion. Our product coupons do not have face value, but specify the types of products which can be redeemed. We issue coupons at various discount rates from our usual retail price during the Track Record Period, ranging from 15% to 50% for bulk purchases depending on the quantity of coupons purchased.

We outsource the printing of our paper coupons to an Independent Third Party. To ensure the revenue from coupon sales is recognised properly, we have a customised system to maintain the information of the paper coupons from issuance until redemption. Each paper coupon is printed with a bar code to enable us to quantify liabilities for unredeemed paper coupons. We closely monitor the printing of coupons and require that the coupons are printed strictly according to our requirements, and any inconsistency is recorded by us. After the coupons are delivered to us, we will record each coupon by filing its bar code into our system, so that we are able to track the sale and redemption of the coupons.

### ***Corporate promotion of coupon sales***

We also offer our product coupons and cash coupons to corporate entities in Hong Kong, including banks, insurance companies, professional associations and trade unions, which generally offer our coupons to their employees or their members as benefit, or present them to customers for their marketing and promotional purposes. We generally provide corporate sales discount to corporations, ranging from 15% to 50% during the Track Record Period. We believe there is great potential for promotion of our coupons through corporate channels and we aim to enhance our Direct Sales through corporate promotion by (i) strengthening promotion through our existing contacts, (ii) promoting to other corporations by sales representative, (iii) encouraging referral by existing customers, and (iv) strengthening online promotion and online ordering capability for corporate promotion.

### ***Pre-paid membership cards***

We promote and offer pre-paid membership cards under our “JICA CLUB (自家CLUB)” membership programme to foster customer loyalty. Use of membership cards are more convenient compared to making payment in cash and provide greater flexibility than coupons.

## BUSINESS

Members may make prepayment into their membership cards, purchase electronic product coupon package, obtain bonus points and use the cards for payments for our products at our retail shops for multiple times. Our customers can purchase our products with the balances in the pre-paid membership cards at any of our retail shops within either Hong Kong or Guangdong Province, depending on the territory at which the pre-paid membership cards were purchased. Our members generally enjoy standard discount rates of 5% in Hong Kong and 10% in Guangdong on prepayment for value on membership cards during the Track Record Period. To ensure security and enable us to keep track of the relevant information, each pre-paid membership card bears a chip with serial number.

### Other Direct Sales

We also sell our products, primarily our Long Shelf-life Drinks, to customers at locations other than our retail shops in Hong Kong and China, such as exhibitions and sales booths and online store (for sales in Hong Kong only). We also accept orders placed by our customers through telephone for our Fresh Products and provide free delivery service in certain circumstances.

We operate an online store on our own website at <http://www.hungfooktong.com/tc/shopping.php><sup>\*</sup>, which offers our more popular Long Shelf-life Drinks and product coupons to customers in Hong Kong. We provide free delivery service for purchase above a minimum quantity. We believe that the operation of our online store will help to strengthen our brand image, increase our market share and promote our brand awareness among internet users, whom we believe are mainly from the younger generation.

### INDIRECT SALES

Our Indirect Sales are primarily made to (i) third party retailers, including our key-account customers which comprise supermarket and convenience store chains, and other retailers; and (ii) distributors, which is consistent with common industry practice in Hong Kong, China and overseas.

Third-party retailers comprise our key-account customers and other retailers who operate a large number of retail points in Hong Kong or China, which place our brand and products into easy reach of the public. The third-party retailers purchase our products in bulk quantities with some discount from the retail price suggested by us and then on-sell them to end-customers.

To expand the market coverage of our products, we also sell our products to our distributors, who distribute them to other sub-distributors and retailers in the regions where they operate. These distributors are typically engaged in the distribution of food and beverage products and operate a well-established local distribution networks. The use of distributorship arrangement is consistent with market practice in the beverage product industry.

We generally set sales targets for our distributors, and we reward those who achieve their annual sales targets with product rebates, which are typically calculated as a percentage of actual sales, based on the range to the sales target that the distributor has achieved.

*Note:*

\* The contents of this website, or any website mentioned in this prospectus do not form part of this prospectus.

## BUSINESS

The table below shows a breakdown of our Indirect Sales revenue by different sales channels during the Track Record Period.

Revenue from Indirect Sales	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Hong Kong</b>						
Sales to third-party retailers	68,001	47.6	81,747	48.0	81,628	38.2
Sales to distributors	19,346	13.5	23,678	13.9	29,739	13.9
<b>Subtotal (Hong Kong)</b>	<b>87,347</b>	<b>61.1</b>	<b>105,425</b>	<b>61.9</b>	<b>111,367</b>	<b>52.1</b>
<b>China</b>						
Sales to third-party retailers	10,972	7.7	11,852	6.9	31,866	14.9
Sales to distributors	31,717	22.2	39,501	23.2	54,082	25.3
<b>Subtotal (China)</b>	<b>42,689</b>	<b>29.9</b>	<b>51,353</b>	<b>30.1</b>	<b>85,948</b>	<b>40.2</b>
<b>Overseas</b>						
Sales to distributors	12,926	9.0	13,584	8.0	16,447	7.7
<b>Total Indirect Sales Revenue</b>	<b>142,962</b>	<b>100.0</b>	<b>170,362</b>	<b>100.0</b>	<b>213,762</b>	<b>100.0</b>

### Indirect Sales in Hong Kong

- **Sales to third-party retailers in Hong Kong**

The table below shows a breakdown of our revenue generated from our indirect sales by key-account customers and other retailers in Hong Kong during the Track Record Period.

Revenue	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Sales to third-party retailers:</b>						
— Sales to key-account customers	58,619	86.2	69,520	85.0	70,335	86.2
— Sales to other retailers (e.g. groceries stores, cinema and restaurants)	9,382	13.8	12,227	15.0	11,293	13.8
<b>Total for sales to third-party retailers</b>	<b>68,001</b>	<b>100.0</b>	<b>81,747</b>	<b>100.0</b>	<b>81,628</b>	<b>100.0</b>

#### Key-account customers in Hong Kong

Our key-account customers include supermarket and convenience store chains in Hong Kong. As at the Latest Practicable Date, we had ten key-account customers in Hong Kong. Our key-account customers are our major customers, and we have established over ten years of business relationship with our top three key-account customers in Hong Kong during the Track Record Period. Sales to our key-account customers in Hong Kong were HK\$58.6 million, HK\$69.5 million and HK\$70.3 million in 2011, 2012 and 2013, respectively, and contributed to 67.1%, 65.9% and 63.1% of sales revenue generated from our Indirect Sales in Hong Kong. This comprises of a mix of sales to our key-account customers and other retailers.



## BUSINESS

### *Other third-party retailers in Hong Kong*

We also sell our products to other retailers in Hong Kong who on-sell them to the end customers. These other retailers include restaurants, bakeries, individual groceries stores, food kiosks in cinemas and schools in Hong Kong.

The total sales to other retailers in Hong Kong were HK\$9.4 million, HK\$12.2 million and HK\$11.3 million in 2011, 2012 and 2013, respectively, and contributed to approximately 10.7%, 11.6% and 10.1% of our revenue generated from our Indirect Sales in Hong Kong.

- **Sales to Distributors in Hong Kong**

During the Track Record Period, we sold our products to two distributors in Hong Kong, with which we have historically established close relationship, which on-sell our products to individual third-party retailers such as individual grocery stores in Hong Kong.

In 2011, 2012 and 2013, our sales to distributors in Hong Kong were HK\$19.3 million, HK\$23.7 million and HK\$29.7 million, respectively, representing 22.1%, 22.5% and 26.7% of our revenue generated from our Indirect Sales in Hong Kong in the respective years.

### **Indirect Sales in China**

We entered into the PRC market for our Long Shelf-life Drinks distribution business in 2002. Over the years, we had focused our resources and effort mainly in the Guangdong Province. The Major Guangdong Cities are the most important market to us in China, contributing 93.0%, 85.6% and 72.8% of our Indirect Sales revenue in China in 2011, 2012 and 2013, respectively. The following table sets out our Indirect Sales in China by geographical locations:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Revenue from</b>						
<b>Indirect Sales in China</b>						
<b>Major Guangdong Cities</b>						
Guangzhou	16,988	39.8	20,041	39.0	28,194	32.8
Shenzhen	12,009	28.1	12,623	24.6	19,192	22.3
Dongguan	9,179	21.5	8,450	16.4	10,153	11.8
Other Guangdong cities*	1,534	3.6	2,846	5.6	5,064	5.9
<b>Sub-total for the</b>						
<b>Major Guangdong Cities</b>	<b>39,710</b>	<b>93.0</b>	<b>43,960</b>	<b>85.6</b>	<b>62,603</b>	<b>72.8</b>
Shanghai	2,107	4.9	5,340	10.4	14,290	16.6
Others*	872	2.1	2,053	4.0	9,055	10.6
<b>Total</b>	<b>42,689</b>	<b>100.0</b>	<b>51,353</b>	<b>100.0</b>	<b>85,948</b>	<b>100.0</b>

*Note:*

\* The "Other Guangdong cities" and "Others" comprised 32 cities located in 13 Provinces in China as at 31 December 2013.

## BUSINESS

- ***Sales to third-party retailers in China***

In China, we sell our products to third-party retailers all of which are our key account customers, including supermarket, grocery stores, pharmacies and convenience store chains in Guangzhou, Shanghai and other major cities. As at the Latest Practicable Date, we had nine key-account customers in China. We have established on average about three years of business relationship with our major key-account customers in China. Sales to our key-account customers in China was HK\$11.0 million, HK\$11.9 million and HK\$31.9 million for the year 2011, 2012 and 2013, respectively and contributed to 7.7%, 7.0% and 14.9% of sales revenue generated from our Indirect Sales or 25.7%, 23.1% and 37.1% of our Indirect Sales revenue generated in China in the respective years.

For expansion of our Indirect Sales in China, we intend to gradually place more focus on sales to our key-account customers. We believe that strengthening sales directly to our key-account customers will allow us to further enhance our strategic relationship with them and leverage their extensive sales channels to increase our sales. To achieve this, we intend to develop closer relationships and maintain more frequent direct communications with our key-account customers and provide more support to our key-account customers to sell our products.

- ***Sales to distributors in China***

The food and beverage market in China is fragmented. We consider that in addition to establishing relationship and selling directly to key-account customers, it is equally important to establish an extensive distributorship network in order that we can rely on their distribution networks and sales channels to on-sell our products to the end customers on an efficient and cost effective manner. As at 31 December 2013, we sell our products to our distributors in China, covering 36 cities in 13 Provinces, who distribute them to their sub-distributors and retailers in the regions where they operate. Our distributors are typically engaged in the distribution of food and beverage products and operate a well-established local distribution networks. The use of distributorship arrangement is consistent with market practice in the beverage product industry in China.

As at 31 December 2013, we sold our products to 48 distributors in China, principally located in the Guangdong Province and Shanghai. Sales to distributors help expand the geographical coverage of our products and the presence of our brand in China and shorten the lead time for introducing our products to new markets. For our distribution business, we currently have offices located in Shenzhen, Dongguan, Guangzhou and Shanghai. For the expansion strategy for our Long Shelf-life Drinks distribution operation, please see the paragraph “Our Strategies — Improve our sales and expand our market coverage in China” above in this section.

We generally set sales targets for our distributors, and we reward those who achieve their annual sales targets with product rebates, which are typically calculated as a percentage of actual sales, based on the range to the sales target that the distributor has achieved.

In 2011, 2012 and 2013, our sales to distributors in China were HK\$31.7 million, HK\$39.5 million and HK\$54.1 million, respectively, representing 22.2%, 23.2% and 25.3% of our revenue generated from our Indirect Sales, or 74.3%, 76.9% and 62.9% of our revenue from Indirect Sales in China in the respective years.

### **Overseas**

- ***Sales to distributors overseas***

We principally engage our distributors for distribution of our Long Shelf-life Drinks in overseas countries. They generally have established retail distributorship network in the countries or cities where they operate. During the Track Record Period, we have sold our Long Shelf-life Drinks to distributors located in Macau, United States, Canada, Malaysia, Australia, New Zealand, the

## BUSINESS

Philippines, Taiwan and the United Kingdom. Based on the relevant distributorship agreements, all risk associated with the products are passed to the distributors when they are delivered on board the vessels and the distributors are responsible for compliance of importing the products to the relevant countries. During the Track Record Period, we also sold and delivered our Long Shelf-life Drinks to traders or distributors located in Hong Kong, which then export and distribute them in overseas countries, and such sales are recognised as our sales in Hong Kong to such distributors.

The following table sets forth the principal terms which are typical of the agreements and/or purchase orders, and customary trade practice we enter into with our key-account customers and other third-party retailers.

	<b>Key-account customers</b>	<b>Other third-party retailers</b>
<b>Duration</b>	One year	N/A (by individual purchase orders)
<b>Geographic or other exclusivity</b>	No	No
<b>Geographic or other restrictions</b>	No	No
<b>Minimum purchase requirement</b>	No	No
<b>Sales target</b>	Yes	No
<b>Sales incentive/rebate</b>	Yes	No
<b>Fixed/Minimum retail price</b>	Suggested retail price only	We set out suggested retail price on the purchase order which represent a mark-up on the price we sell to the third-party retailers.
<b>Credit periods</b>	30 days to 105 days	Generally 30 days from end of the month in which the purchase was made
<b>Return of expired products</b>	No	No
<b>Return of defective products/damaged goods allowance</b>	Yes	Yes
<b>Other rights and obligations of our Company</b>	We provide incentive rebates to key-account customers	We are responsible for delivery to the retail points of the third-party retailers.
<b>Other rights and obligations of the retailers</b>	The customers are responsible for in-shop marketing of our products but we will provide them with promotion support.	The third-party retailers are responsible for in-shop marketing of our products but we may provide them with marketing fund which is off-set against the purchase price.
<b>Conditions for terminating or renewing agreement</b>	Breach of terms in purchase agreement	N/A

## BUSINESS

The following table sets forth the typical principal terms of the agreements and/or purchase orders, and customary trade practice we enter into with our distributors.

	<u>Distributors in Hong Kong</u>	<u>Distributors in China</u>	<u>Distributors in overseas countries</u>	<u>Distributors located in Hong Kong for distribution to overseas countries</u>
<b>Duration</b>	One year	One year or less	Two years	N/A (by individual purchase orders)
<b>Geographic exclusivity</b>	No	No	Yes	No
<b>Geographic restriction</b>	Yes — prohibition against sales outside Hong Kong	Yes — distribution restricted to the specified region	Yes — prohibition against sales outside specified territory	Yes — prohibition against sales outside specified territory
<b>Relationship with distributor (seller/buyer or principal/agent)</b>	Seller/buyer	Seller/buyer	Seller/buyer	Seller/buyer
<b>Minimum purchase requirement</b>	No	No	Yes	No
<b>Sales target</b>	Yes	Yes	Yes	No
<b>Sales incentive/rebate</b>	Yes	Yes (the rebate percentage applicable is generally depending on the level of sales achieved by the distributor)	No	No
<b>Provision of sales/inventory reports and estimates to us</b>	N/A	Distributor shall provide inventory report to us, usually on a monthly basis	N/A	N/A
<b>Sales and retail pricing policy</b>	N/A  We generally provide suggested retail price to distributors which represent a mark-up on the price we sell to the third-party retailers	Yes  • Retail price provided by us, which we may change upon providing sufficient notice	• Distributor to determine retail price  • We reserve right to review and determine retail price on a cost plus basis according to market conditions	N/A
<b>Payment terms</b>	Payment in Hong Kong dollars by cheque	Payment in RMB by bank transfer	• Payment in Hong Kong dollars by bank transfer	Payment in Hong Kong dollars by bank transfer
<b>Credit periods</b>	30 days	Payment before delivery in generally, but we may provide credit periods ranging from 25 to 45 days to a small number of distributors with whom we maintain well-established relationship	Payment before delivery in generally	Payment before delivery in generally
<b>Return of expired products</b>	No	No	No	No
<b>Return of defective products</b>	Yes	Yes	Yes	Yes
<b>Distributor's right to use our trade names other than sale of its products</b>	No	No	No	No

## BUSINESS

	<u>Distributors in Hong Kong</u>	<u>Distributors in China</u>	<u>Distributors in overseas countries</u>	<u>Distributors located in Hong Kong for distribution to overseas countries</u>
<b>Other rights and obligations of our Group</b>	N/A	<ul style="list-style-type: none"> <li>We provide necessary product description and promotional materials</li> <li>We may inspect the inventory of the distributor</li> </ul>	<ul style="list-style-type: none"> <li>We shall use best endeavours to provide technical support and training at distributor's expense</li> </ul>	N/A
<b>Other rights and obligations of the key-account customers/ distributors typically provided in agreement</b>	<ul style="list-style-type: none"> <li>Distributor shall maintain sufficient inventory</li> <li>Distributor shall use best efforts to promote sales of our products</li> <li>Distributor shall only purchase our products from our Group and not from other channels</li> </ul>	<ul style="list-style-type: none"> <li>Distributor shall use best efforts to promote sale of our products</li> <li>Distributor shall comply with all local laws and regulations and obtain all required licences or permits</li> <li>Distributor shall maintain sufficient inventory</li> <li>Some agreements prohibit distributors from selling competing products without our consent</li> </ul>	<ul style="list-style-type: none"> <li>Distributor shall ensure compliance with all laws and regulations in the relevant territory</li> <li>Distributor shall use best efforts to promote sale of our products</li> <li>Some agreements prohibit distributors from selling competing products without our consent</li> <li>Distributor shall provide marketing and sales report to us on quarterly basis or as requested</li> </ul>	<ul style="list-style-type: none"> <li>Distributors shall ensure the labelling of the products complies with all laws and regulations in the relevant territory</li> </ul>
<b>Conditions for terminating or renewing agreement</b>	<ul style="list-style-type: none"> <li>May be terminated by us if the distributor fails to comply with the agreement</li> </ul>	<ul style="list-style-type: none"> <li>May be terminated by us if the distributor fails to achieve minimum sales target</li> <li>If breach of agreement is not remedied within specified period of time</li> </ul>	<ul style="list-style-type: none"> <li>If breach of agreement is not remedied within specified period of time</li> </ul>	N/A

The table below sets forth the number of distributors for the periods indicated.

<u>Distributors</u>	<u>2011</u>				<u>2012</u>				<u>2013</u>			
	<u>Hong Kong</u>	<u>China</u>	<u>Overseas</u>	<u>Total</u>	<u>Hong Kong</u>	<u>China</u>	<u>Overseas</u>	<u>Total</u>	<u>Hong Kong</u>	<u>China</u>	<u>Overseas</u>	<u>Total</u>
			<i>(Note 1)</i>				<i>(Note 1)</i>				<i>(Note 1)</i>	
Number at the beginning of the year	2	13	10	25	2	20	12	34	2	38	14	54
Number added during the year	0	8	3	11	0	20	5	25	0	13	5	18
Number terminated during the year	0	1	1	2	0	2	3	5	0	3	3	6
<b>Total at the end of the year</b>	<b><u>2</u></b>	<b><u>20</u></b>	<b><u>12</u></b>	<b><u>34</u></b>	<b><u>2</u></b>	<b><u>38</u></b>	<b><u>14</u></b>	<b><u>54</u></b>	<b><u>2</u></b>	<b><u>48</u></b>	<b><u>16</u></b>	<b><u>66</u></b>

Note:

- (1) The number of overseas distributors in this table include those located overseas and those located in Hong Kong which purchased our products for distribution overseas.

## BUSINESS

We maintained only two distributors for the Hong Kong market throughout the Track Record Period as we believe these distributors have already covered most of our target customers in Hong Kong. For the PRC market, we experienced the market demand and the encouraging results of our Indirect Sales in China in 2011, and have placed more effort in expanding our Indirect Sales in China by engaging more distributors to cover regions which were not yet covered such as Xi'an, Qingdao, Nanning, Xiamen, Wenzhou and Fuzhou which explains the net addition of 18 new distributors in 2012 in China. We continued such effort in 2013 albeit at a slower pace compared to 2012 by a net addition of 10 new distributors. For the overseas market, we have been adding new distributors on a steady pace by a net addition of two new distributors in each of 2012 and 2013 to cover overseas countries which were not yet covered. The reasons for termination or replacement of some distributors during the Track Record Period generally include failure of the relevant distributor to make payment on time, failure to meet sales target or unwillingness to follow our promotion activities. Our Directors confirm that these isolated incidents and the termination of distributorship did not have any material impact on our distribution network or results of operation. We have not experienced any material issue with the collection of account receivables from our distributors and third-party retailers during the Track Record Period. Please see the section "Financial Information — Discussion of Certain Key Balance Sheet Items — Trade Receivables" in this prospectus for details regarding the recoverability of our accounts receivables.

### ***Selection of distributors and third-party retailers***

We select our distributors according to a set of selection criteria including their locations, retail point coverage, other products distributed by them, legal compliance, willingness to commit to sales target, staffing, as well as their operation history and financial conditions. Our sales department regularly evaluates the sales performance of such distributors and third-party retailers every month. Our sales department also carries out site inspection of the retail points of our distributors and third-party retailers regularly.

For selection of non-chain third-party retailers, we generally consider the location of their retail outlets and the distance from our existing customers in order to synergies the logistic costs and require them to have retail outlet which has at least one chillers and sufficient display area for our products.

Our sales staff constantly liaises with the representatives of our distributors and third-party retailers in order to evaluate their sales performance, predicted demand and plan for their upcoming orders. We also provide information including the expiry dates and storage requirements of our products to our distributors and third-party retailers to ensure that our products are stored correctly by them and within the shelf-life.

### ***Management of distributors***

We generally enter into distribution agreements, with typical principal terms set out above, with our distributors. Our distribution agreements generally have a term of one year to two years and are renewable upon expiry. The distribution agreements specify the designated distribution territories for each of our distributors. Our distributors are restricted to distribute our products in their respective distribution territories only. We may terminate the agreements with those distributors who fail to observe the geographic restriction.

We generally provide guidelines with suggested retail prices for distributors and our sales and marketing staff regularly monitor our distributors and their retailers to ensure that our pricing policies are implemented and, in particular, that our products are not sold at a price substantially below our suggested retail prices without our consent. Distributors in overseas markets are allowed to determine retail prices of our products in their respective markets. However, we reserve our right to review and determine retail prices on a cost plus basis according to market conditions. As we do not have deep knowledge on overseas market conditions, we believe allowing our overseas distributors to determine retail prices in their respective markets will provide flexibility to them to market our products according to their market knowledge, and we consider such flexibility should not negatively affect our

## BUSINESS

product image or brand value because overseas sales still represent a small percentage of our total revenue and in any case we have the right to review and determine the retail prices under the distribution agreements should we find the retail prices adopted by our overseas distributors not desirable or not in line with our overall pricing policy. In future, if any overseas market becomes important to us, we may consider imposing our pricing policy in our distribution agreements.

Under our distribution agreements, we provide sales targets to our distributors (except for distributors located in Hong Kong for distribution to overseas countries). If the sales target is not met by any particular distributor, we may reduce the sales rebates or terminate the relevant distributorship agreement with that distributor. Under our agreements, only defective products are allowed to be returned by our distributors, or third-party retailers. In 2011, 2012 and 2013, products with value of HK\$0.2 million, HK\$0.3 million and HK\$0.4 million, represently 0.1%, 0.2% and 0.2% of our revenue from Indirect Sales in the respective year, were returned by our third-party retailers or distributors, mostly because the shelf-life of the products at the time of delivery was less than the agreed minimum shelf-life. We monitor level of inventory maintained by our distributors and generally require them to keep sufficient inventory to meet expected market demand. In Hong Kong, we maintain a close communication with and visit our distributors and third-party retailers on a regular basis to review that the inventory level kept by our distributors or third-party retailers are not excessive to the expected market demand. In China, in addition to paying regular visits and maintaining close communication, we also require our distributors to provide inventory reports on a monthly basis for our better monitoring.

Based on the review and monitoring procedure set out above, we are not aware of any excessive inventory level kept by our distributors or third-party retailers and consider that the increase in our sales to distributors and third-party retailers during the Track Record Period is attributable to the increase in demand for our products in the end-market.

We believe there is no cannibalisation among our distributors and/or third-party retailers for the following reasons:

1. when we select our distributors and third-party retailers, we take into account their respective geographic territories as well as distribution channels, including the third-party retailers' points of sales, distributors' sales to sub-distributors, other retailers or catering services operators in order to ensure that their sales networks do not materially overlap;
2. under the distribution agreements, our distributors are restricted to distribute our products in their respective designated distribution territories only, with an aim to establish a network of distribution complementing each other and to avoid unwanted competition among themselves; and
3. we set the suggested retail prices of our products and monitor the inventory level kept by our distributors not being excessive to the expected demand in the market. We keep close communication with them and visit our distributors on a regular basis to ensure our pricing and inventory policies are generally complied with.

In addition to selling our products to distributors and third-party retailers, which on-sell our products to end customers in the market (i.e. the Indirect Sales), we also sell our products at our retail shops or through coupon and pre-paid membership sales (i.e. the Direct Sales). We consider that there is no direct competition between our Indirect Sales and Direct Sales because we mainly sell Long Shelf-life Drinks in our Indirect Sales but Fresh Products in our Direct Sales. As the formulae ingredients and more importantly pricing of our Long Shelf-life Drinks and Fresh Products are not the same, we consider even products available in both Long Shelf-life Drinks and Fresh Products format do not compete or replace each other but rather they complement each other to meet the requirements of the end-customers.

Please see the paragraph "Sales and Distribution" above in this section for revenue recognition policy for our Indirect Sales.

## OTHER SALES

### Franchise operation in Hong Kong

In addition to our self-operated retail shops in Hong Kong, as at the Latest Practicable Date, we had two franchise retail shops which are operated by a non-profit organisation under two franchise agreements, which are located in Tuen Mun and Kowloon Tong in Hong Kong respectively. Under the franchise agreements, the franchisee shall pay us a franchise fee, which is calculated as a percentage of the monthly revenue of the franchisee shops, and they purchase our products from us for on-selling to customers at the franchise shops. The franchise is restricted to the two franchise shops at the two specified locations, and we do not intend to grant any further franchise to any third party. The franchise arrangement with the non-profit organisation is not the focus of our business, and is part of our aim to fulfil our corporate social responsibility. Revenue generated from franchise arrangement, representing sales to the franchisees, in 2011, 2012 and 2013 was HK\$2.9 million, HK\$2.9 million and HK\$3.4 million, respectively.

### Sales of OEM Products

Ancillary to the production of our Fresh Products and Long Shelf-life Drinks, we are also engaged in the OEM production of a small number of drink products for our customers which are marketed principally under their brands. During the Track Record Period, we had produced lemon tea for a retail cake shop brand in Hong Kong, and have been producing certain drinks for a large convenience store chain in Hong Kong. As at the Latest Practicable Date, our OEM Products comprised 14 flavours of drinks which we produced for a well-known convenience store chain in Hong Kong. The production of the OEM Products is not the focus of our business, but we intend to continue this operation as we believe that this will solidify our close relationship with such OEM customer, which is also a major key-account customer of our Long Shelf-life Drinks with a large and well-established network of retail outlets during the Track Record Period. Our Directors consider that as this OEM customer may approach our competitors to produce similar products for them in any event, it is more beneficial for us to supply such OEM Products to this customer, which provide us with an additional source of revenue and strengthen our relationship with this major convenience store operator.

Revenue generated from sales of OEM Products in 2011, 2012 and 2013 was HK\$5.5 million, HK\$4.0 million and HK\$6.4 million, respectively, representing 1.2%, 0.7% and 1.0% of our total revenue in the respective years.

## SEASONALITY

Our sales as a whole is stable in general throughout the year. Our peak sales season in respect of Long Shelf-life Drinks in Hong Kong and China is generally in summer which begins around May and lasts until around September of each year when demand for cold drinks is high. The peak sales seasons for our Fresh Products are the holiday seasons such as summer holidays, Christmas, New Year and Chinese New Year because of the sales of our festive products such as Tuen Ng rice dumplings, mooncakes and Chinese New Year products.

## PRICING POLICY

We generally price our products with mass market customers as our target customers in Hong Kong and mid-to-high end customers as our target in China. For our Fresh Products, we determine the retail selling price with reference to the production costs plus a gross profit percentage. We also take into account the market positioning of our products and the retail price of similar products in the market. We generally adopt a consistent price for the same products across our retail shops in Hong Kong but allow for some flexibility for adjustment according to the location of some retail shops, such as those located in the airport or boundary control points or in districts with population with lower



## BUSINESS

income. For our retail shops in China, we adopt pricing schemes that take into greater consideration the regions in which our retail shops are located and the purchasing power of our target customer segment.

For our Long Shelf-life Drinks, the retail selling price is generally determined based on the market retail price of similar products, the market positioning of our products, the cost of production, and the usual operating costs and profit margin for the different sales channels.

For the distributors of Long Shelf-life Drinks in China, a suggested retail selling price and wholesale price guideline is set out in the distributorship agreements. To ensure that distributors or third-party retailers comply with the relevant guideline, our sales team carries out regular checking at the distributor's customer retail points.

### OUR CUSTOMERS

We believe that our customers of our Direct Sales include a broad range of consumers in the mass market in Hong Kong and mainly mid-to-high income group in China. Customers of our Indirect Sales are principally third-party retailers including key account customers in Hong Kong and China, and distributors in Hong Kong, China and overseas, who sell to end-customers, whom we believe cover a wide range of customers in the respective markets. In particular, our major customers for Indirect Sales include our key-account customers which are supermarket chains and convenience stores, and distributors in Hong Kong, the Major Guangdong Cities and Shanghai.

We have long and well-established business relationship with the majority of our major customers in Hong Kong, which are mostly key-account customers of our Indirect Sales business, generally over ten years and that with our major customers in China over three years, and in particular, we have established over ten years of business relationship with our top three key-account customers during the Track Record Period, which are convenience store and supermarket chains in Hong Kong.

We do not enter into any long-term contracts with our major customers, and the contracts with major customers are usually renewed annually. Our Directors believe that as we have built up sufficient brand recognition and demand from the consumers, and the distributors and third-party retailers will continue to place orders with us in the foreseeable future even without any long-term commitment.

In 2011, 2012 and 2013, the aggregate sales to our five largest customers, who were either key-account customers or distributors of our Indirect Sales, accounted for 17.0%, 16.4% and 15.7% of our total revenue, respectively, and sales to our largest customer accounted for 6.7%, 6.3% and 6.1%, respectively, of our total revenue in the respective years.

All of our five largest customers are Independent Third Parties. None of our Directors, their associates or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest customers during the Track Record Period.

### CREDIT CONTROL

Our Long Shelf-life Drinks and some of our Fresh Products are generally sold to the distributors and third-party retailers on an open account basis with credit period ranging from 30 days to 105 days. For all new Indirect Sales customers, except certain multi-national retailers, we require cash payment for the first three months and credit term may be granted after the three-month assessment period. In respect of the sales of Long Shelf-life Drinks to overseas markets, we generally require full payment prior to shipment.

## MARKETING, PROMOTION AND MARKET RESEARCH

Our marketing department engages a variety of marketing activities and multimedia channels to promote recognition and image of our brand. In addition, we also organise different marketing activities which are specific for our sales of our Fresh Products and our Long Shelf-life Drinks. In 2011, 2012 and 2013, our advertising and promotion expenses were HK\$23.4 million, HK\$22.3 million and HK\$25.4 million, respectively, representing 4.9%, 3.8% and 3.9% of our revenue in the respective years.

### **Brand Marketing**

To enhance the recognition and image of our “鴻福堂 (Hung Fook Tong)” brand, we undertake media advertising and promotional campaigns, which includes the following.

#### ***Media advertising***

During the Track Record Period, we have promoted our brand and products through advertisements on television networks, newspapers, magazines, outdoor advertising, MTR stations, MTR trains, buses, bus stations, bus road shows and online social platform and networking websites. In addition, we have also published herbal booklets, leaflets and posters to provide educational information about seasonal wellness tips and Chinese herbal traditions to our customers and strengthen the image of the brand in public.

#### ***Brand spokespersons***

We currently have three well-known Hong Kong singers/actors as our brand spokesperson. We have launched a series of marketing campaign with our spokespersons promoting our young and healthy image, including fans gathering event, printed advertisement of different campaigns and magazine cover shooting.

#### ***Establishing brand recognition by in-store marketing***

Through the use of consistent decoration, product displays and backdrop design at each of our retail shops, we seek to enhance public recognition and brand image of our “Hung Fook Tong” brand. This in-store marketing approach is cost-effective as we can make use of our retail shops that are strategically placed at locations with high customer flow, enabling us to reach a wide consumer base for our Fresh Products without incurring substantial extra cost in marketing and promotion.

#### ***Promotional campaigns***

We carry out a variety of marketing activities at different time of the year to promote our brand and products using the following methods:

- carrying out joint promotional campaigns with other brands of products or institutions like banks, to tap into their large existing customer base;
- participating in exhibitions such as Hong Kong Food Expo and Hong Kong Brands and Products Expo in Hong Kong and China;
- running product trials to promote our new products at schools and large enterprises;
- promoting our products together with gifts or products of popular Japanese cartoon figures;
- sponsoring various activities organised by charity groups, local schools;
- organising regular promotion activities and sales booths at schools and offices;
- offering price discounts and coupons to customers to enhance the public awareness of our brand and products.

## **Corporate Social Responsibility Programmes**

Consistent with our brand value which focuses on the living of a natural and healthy life, we have a strong sense of mission and responsibility to fulfil our corporate social responsibility. Although charity is our primary goal in initiating such programmes, they also provide exposure of our brand and enhance the public esteem of our brand as a socially responsible enterprise.

### ***Charity programmes***

We provide sponsorship of our products in charity events and give donations to non-profit organisations such as Community Chest regularly. We believe that in addition to fulfilling our corporate social responsibility, such activities promote the image of our brand as a socially responsible enterprise and part of the local community.

We have established our “Hung Fook Tong Volunteers Team” in 2008, which has organised a number of volunteer activities including Mother’s Day impoverished family visit, product charity sales and rice-dumpling caring action. We allow our employees to take “volunteer leave” in order to encourage them to actively participate in volunteer services. We also encourage our staff to form corporate team to participate charitable activities such as “Oxfam Trailwalker” and “MTR race walking” and the participation of our cheering team epitomise our team spirit and at the same time increased the exposure of our brand in such public events.

We also collaborate with a number of non-profit organisations, for example in the operation of our franchise retail shops in Hong Kong. We provide employment opportunities to the underprivileged in various positions, helping them to develop their potential and improving their self-care skills integrate into society.

We donate our products and coupons to hundreds of social service organisations every year, including youth groups, nursing homes and family service associations. Our Group has provided sponsorship in the form of food coupons for “The Community Chest Skip Lunch Day” for four consecutive years, aiming at encouraging the public to donate their lunch fees to provide services for those living in a poor environment. We also set up donation boxes and in-store broadcast television in our retail shops, for non-profit organisations to promote collect donation.

After the Sichuan earthquake in 2008, we launched a series of fundraising activities and one of our executive Directors led members of management team to participate in rescue activity in Sichuan. We donated one hundred thousand bottles of herbal tea to the victims to express our love and encouragement for them.

### ***Environmental protection programmes***

Consistent with our belief in the natural products and lifestyle, we took initiative in eco-friendly programme and have installed plastic bottle recycling machines in some shopping malls and institutions, appealing to the public to participate in recycling activity. We have also organised bottle drinks packaging design competition with recycled theme named “Love Health, Love Green”, to encourage teenagers to arouse public concern for waste reduction and recycling.

## **Marketing for Direct Sales**

### ***Product promotion***

We develop different series of soups, drinks and dessert products for different seasons and market festive products for Chinese New Year, Tuen Ng Festival and Mid-autumn Festival, and we rollout different promotion programmes for these seasonal or festive products.

### ***Promotion through our membership programme and coupon***

We promote our brand and products through our “JIKI CLUB (自家 CLUB)” membership programme, which also serves as a platform for our customer relationship management system. The membership programme has attracted over 380,000 members as at the Latest Practicable Date, with an addition of approximately 70,000 members each year during the Track Record Period. We believe our membership programme helps us to foster customer loyalty, re-connect with former customers and promote repeated visits and purchases. We analyse a variety of customer information collected through our membership programme including identities of customers, frequency of visits, locations of retail shops visited, amounts of purchase and products purchased. Our customer relationship management personnel conduct regular analysis of the collected data to ascertain consumption patterns and fluctuations. We utilise these regular reports by facilitating targeted marketing efforts and adjusting our product offerings accordingly.

We launched a VIP member programme targeting customers with high spending level and further develop our membership programme services, including online membership information checking and electronic coupon purchase.

We offer coupon promotion to our customers from time to time, and this is considered by us as an effective way to raise our revenue and enhance the brand loyalty of our customers.

For details of sales through pre-paid membership cards and coupons, please see the paragraph “Direct Sales through Redemption of Coupons and Stored Value in Pre-paid Membership Cards” above in this section.

### **Marketing for Indirect Sales**

In addition to maintaining a close business relationship with our key-account customers such as supermarkets, convenience stores and department stores, our sales team organises and coordinates marketing activities in respect of our products including the launch and promotion of new products.

The launch and promotion of new products could encompass market testing, pre-launch promotion and the final listing of products with our third-party retailer distribution channels including supermarkets and convenience stores. Once a product has been included in a distribution channel, it becomes a product that would be displayed at the respective stores of the distribution channel for sale to the end customers. Our sales department continues to promote the products with various promotions and marketing activities. Performance of new products are monitored, analysed and reported monthly at our management meeting to our management abreast of the latest market demands.

Our Long Shelf-life Drinks have been marketed in various supermarkets, convenience stores, department stores in different locations of Hong Kong since 1997. In 2002, we expanded our Long Shelf-life Drinks market to China, with a focus on the markets in Guangdong Province. Since 2008, our Long Shelf-life Drinks have been distributed and sold by distributors and third-party retailers in PRC. Our products are also distributed by distributors to overseas countries.

### ***Discount and promotional sales of Long Shelf-life Drinks***

We offer certain trade discounts and promotion discounts for occasional promotional activities to our major third-party retailers such as supermarkets and convenience stores during the Track Record Period, and we sometimes also offer a small percentage of target rebate if the sales of the third-party retailers of our products reach certain yearly or monthly sales targets, which are usually based on an increment to the sales of the previous period.

### Market Research

We purchased market research report prepared by external market researcher relating to our brand or products during the Track Record Period. We also pay close attention to new product development and promotion and customers feedbacks, which we believe is valuable source of information for us to develop our products and enhance our promotion planning and service quality. Please see the paragraph “Customer Feedback” below in this section.

Our experienced marketing team is responsible for monitoring our brand awareness, new product development research, existing product satisfaction tracking, mystery shoppers’ assessment on retail shops service level, promotion effectiveness evaluation and new shops business analysis.

Our membership system serves as a good platform for our market research. In order to have better product development, promotion planning and service enhancement, we invite our members to join focus groups for new and existing products tasting and promotion idea discussions, and their comments on products are considered by our research and development team when they decide on the product formula and packing. We also distribute new products to all staff internally and collect their comments, in order for our research and development team to make final adjustment of new products before they are launched.

For every seasonal promotion and festival promotion, we conduct survey on the public’s reception of our marketing materials and promotion programme. We evaluate the effectiveness of our promotion campaign and provide recommendation on subsequent promotion planning.

We cooperate with the local universities to study market trend, customer behaviour and brand awareness for our “鴻福堂 (Hung Fook Tong)” brand. We evaluate the survey analysis for a better understanding on new market trend and customer satisfaction on our products.

We conduct monthly mystery shoppers’ assessment on the service quality of retail shops, including the quality of our frontline retail staff on customer service, selling technique and product knowledge, and the results of such assessment are used for making improvement to enhance our retail shop service.

For the opening of new retail shops, our marketing team is responsible for investigating the business environment and conducting competitor analysis to facilitate the new shops location selection. Such analysis also helps to provide appropriate equipment arrangement for shop layout, human resource allocation and business operation planning for our new shops.

### New Products Development and Promotion

Our marketing department observes the latest market trend, previous sales performance, market demand as well as the advertisements of new products produced by our competitors on a regular basis for ideas for developing new products in collaboration with our research and development team, which evaluates the feasibility of the ideas in terms of raw material availability and production considerations. Our internal Chinese medical consultant will provide opinions on the use of any Chinese herbal ingredients in our products. Once an idea for a new product is formed, our research and development department will prepare a small amount of preliminary sample products for internal flavour testing and a subsequent staff taste test report will be conducted.

Product trials are sometimes conducted at the retail shops in order to collect customers’ response with regard to the taste. Product trials can enable us to find out a particular flavour which is most acceptable to the customers for the new product. It is then followed by trial production in our production facilities including test on the ingredients, shelf-life and product quality.

## OUR SUPPLIES

### Raw Materials and Procurement

The principal raw materials used by us in the production process are predominantly sourced in Hong Kong or China including bottles and other packaging materials, fresh products such as pork, fruits and fruit juices, dried seafoods such as dried fish tripe and fried whelk, cooking ingredients such as sugar, rice and eggs, herbs and herbal medicine such as prayer-bead and ginseng tail and other food items. Some of our raw materials such as fruit juices are sourced from Taiwan and Philippines.

As at the Latest Practicable Date, we had over 180 suppliers and established on average over three years of business relationships with most of our major suppliers. During the Track Record Period, we have not experienced any material shortage or delay in the supply of raw materials. It is our policy to maintain more than one supplier for each category of our principal raw materials so as to avoid over reliance on any single source of supply. In addition, this policy allows us to obtain competitive prices.

For the sensitivity analysis and breakeven analysis in relation to changes in costs, please see the section “Financial Information — Key Factors Affecting Financial Position and Results of Operations of our Group — Cost of raw material” in this prospectus.

### Major Suppliers

Our major suppliers include suppliers of packaging materials, raw food materials, Chinese herbs and food products which we sell at our retail shops. We have established on average more than three years of business relationship with most of our major suppliers and we are generally given credit periods of 30 days to 60 days for our purchase and make payments to such suppliers by cheques and bank transfer. In 2011, 2012 and 2013, total purchases of raw materials from our five largest suppliers represented 27.1%, 27.2% and 28.5%, respectively, of our total cost of sales, and purchases from our single largest supplier accounted for 10.9%, 10.9% and 10.8%, respectively, of our total cost of sales in the respective years.

We do not enter into long-term procurement contracts with our suppliers in order to maintain flexibility in being able to source quality raw materials at competitive prices, which are consistent with market practice. Procurement of raw materials is in accordance with the monthly sales forecast provided by our sales department. Inventory levels are carefully controlled and monitored, and each category of raw materials is maintained at a level set by our logistics department.

Since the supply of most of our principal raw materials (except packaging materials) is affected by harvest and weather condition, we sometimes places bulk orders with suppliers at predetermined prices so as to reduce the effect of price fluctuation on our production costs. We believe because of our experience in the industry and well-established relationship with our suppliers, we are usually able to place orders for our raw materials prior to price increase due to the seasonal or harvest factors.

Suppliers are also required to provide certificates of hygiene and quality standard recognised by the provincial government or independent material laboratories in respect of raw materials supplied.

The procurement department is also responsible for purchasing raw materials which are delivered to our production facility. The logistics department is responsible for monitoring the stock level of raw materials and ensuring that our production facility has sufficient stock of raw materials to manufacture products based on the orders placed by each retail shop.

All of our five largest suppliers are Independent Third Parties. None of our Directors, their associates or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or of any of our subsidiaries, had any interest in any of our five largest suppliers during the Track Record Period.

# BUSINESS

## PRODUCTION

### Production Facilities

As at the Latest Practicable Date, we had three principal production facilities in operation which are located on leased premises in Tsuen Wan, Shenzhen (Guanlan) and Dongguan, with a combined GFA for our production of 6,121 sq.m., and we are in the process of setting up our production facilities in Tai Po and Suzhou with a combined GFA of 3,415 sq.m. The Tai Po production facility is expected to commence trial operation in June 2014 and become fully operative in September to October 2014 and the Suzhou production facility is expected to commence trial operation in June 2014 and become fully operative in September 2014 (subject to obtaining of all necessary licences). The lease for our existing production facility in Tsuen Wan has been renewed until December 2014, in order that our relocation of production lines from Tsuen Wan to Tai Po can be carried out gradually and smoothly over a sufficient period of time.

As at the Latest Practicable Date, our Fresh Products sold in Hong Kong are principally produced in our Tsuen Wan production facility, most of our Fresh Products sold in China and all of our Long Shelf-life Drinks are produced in our Shenzhen (Guanlan) production facility. Our Dongguan production facility produces PET bottles for packaging our drink products at our Shenzhen (Guanlan) production facility.

The following table sets out information relating to our existing and planned production facilities.

Facilities	Location	GFA <sup>(1)</sup> (sq.m.)	Number of production line(s)	Status	Principal usage
<b>Existing production facilities</b>					
Shenzhen (Guanlan) production facility	Guanlan, Shenzhen	3,500	Four <sup>(2)</sup>	Leased, expiring in December 2015	Long Shelf-life Drinks, Fresh Products
Dongguan production facility	Dongguan, Guangdong	1,440	One	Leased, expiring in December 2017	PET bottle production
Tsuen Wan production facility	Tsuen Wan, Hong Kong	1,181	Four	Leased, expiring in December 2014	Fresh Products
<b>Planned future production facilities</b>					
Suzhou production facility	Suzhou, China	942	One	Leased, expiring in January 2017	Fresh Products
Tai Po production facility	Tai Po, Hong Kong	2,473	Six	Leased, expiring in 2047	Long Shelf-life Drinks, Fresh Products

Note:

- (1) The GFA of the production facilities include only the area where our production lines and equipment are located, and does not include other areas held by us in the premises which are used for ancillary purposes, storage, or other purposes.
- (2) Our Shenzhen (Guanlan) production facility also has production divisions for manual production of soups and desserts.

# BUSINESS

## Our Existing Production Facilities

### *Tsuen Wan production facility*

Our Tsuen Wan production facility has one production line for tortoise and herbal jelly in plastic packs and one for such products in cups, one for Fresh Product drinks, one for soups in 400mL pouch packs and one production division for manual production of other food products, as at the Latest Practicable Date. These Fresh Products are produced for our Direct Sales in Hong Kong.

### *Shenzhen (Guanlan) production facility*

Our Shenzhen (Guanlan) production facility produces all of our Long Shelf-life Drinks and also produces our Fresh Products sold in China. It has two production lines for Long Shelf-life Drinks, two for Fresh Product drinks, and a production division for soup and desserts.

### *Dongguan production facility*

Our Dongguan production facility produces PET bottles and has one production line. We established our Dongguan bottle production facility in May 2012 to replace the previous one in Shenzhen. Since then, we have increased the production volume of PET bottles to 36.2 million in 2013, which represented 52.9% of the total number of bottles we used to package our products in 2013. Please see the paragraph “Legal and Regulatory Matters — Incidents of Non-compliance and Remedial Measures” below in this section for certain defect of the lease for the property on which our Dongguan production facility is located.

The following table sets out the theoretical maximum production capacities, actual production volume and utilisation rate of our existing production facilities for our major product lines during the Track Record Period and the estimated theoretical maximum production capacities of our planned production facilities:

Location	Tsuen Wan production facility				Shenzhen (Guanlan) production facility		PET Bottle production facility (Note 6)	
	Fresh Product drinks	Soup (‘000 packs of 400mL)	Tortoise/ herbal jelly (‘000 packs of 230g)	Tortoise/ herbal jelly (‘000 cups of 275g)	Long Shelf- life Drinks	Fresh Product drinks	PET Bottles	
Units	(‘000 bottles)				(‘000 bottles)	(‘000 bottles)	(‘000 bottles)	
Assumptions and basis for calculation of maximum annual production capacity	<i>Maximum daily production volume (Note 1)</i>							
	2011	23	12	3	9	200	32	112
	2012	23	12	3	9	200	32	112
	2013	23	12	3	9	278	32	170
	<i>Maximum operating days per year (Note 2)</i>							
	360	360	240	352	299	299	275	
Theoretical maximum annual production capacity	2011	8,352	4,176	768	3,170	59,800	9,568	30,800
	2012	8,352	4,176	768	3,170	59,800	9,568	30,800
	2013	8,352	4,176	768	3,170	83,200	9,568	46,800
						(Note 5)		
Actual production volume (Note 3)	2011	5,091	2,782	539	3,050	50,059	2,787	13,700
	2012	6,066	3,182	519	2,710	58,389	3,985	24,900
	2013	6,642	3,059	235	2,470	62,078	6,324	36,200
Utilisation rate (Note 4)	2011	61.0%	66.6%	70.2%	96.2%	83.7%	29.1%	44.5%
	2012	72.6%	76.2%	67.6%	85.5%	97.6%	41.6%	80.8%
	2013	79.5%	73.3%	30.6%	77.9%	74.6%	66.1%	77.4%



# BUSINESS

*Notes:*

- (1) Determination of the maximum daily production volume is based on the number of production lines, the hourly production volume of the production line, the number of employees involved and other relevant conditions of the production facilities and takes into account the number of working hours of the staff and the time required for daily maintenance of the equipment.
- (2) Determination of the maximum operating days per year takes into account the days required for monthly and yearly maintenance and public holidays.
- (3) Actual production volume refers to the total number of products we actually produced.
- (4) Utilisation rate is calculated by dividing the actual production volume in the relevant year by the theoretical maximum annual production capacity of that year.
- (5) In addition to our original production line for Long Shelf-life Drinks at Shenzhen (Guanlan) production facility with daily production capacity of 0.2 million bottles, we have added a new production line with maximum daily production volume of 0.3 million bottles, which commenced full operation in October 2013.
- (6) In May 2012, we set up a new bottle production facility in Dongguan which commenced operation in July 2013 which gradually replaced our previous bottle production facility located in Guanlan, Shenzhen, which continued to operate until June 2013. A portion of the PET bottles required for the production of our products are produced at our bottle production facility and the remaining PET bottles are sourced from third party suppliers. As our production of PET bottles increased during the Track Record Period, our purchase of PET bottles from supplier has decreased.

## Production Expansion Plan

Currently all of our Long Shelf-life Drinks are produced in our Shenzhen (Guanlan) production facility. In order to match our growth and planned expansion, we are in the process of setting up new production line at our Tai Po production facility which can be used for production of Long Shelf-life Drinks and Fresh Products including production lines for soups, tortoise/herbal jelly, dessert/congee and production equipment for manual production of other food products. In order to complement our expansion plan into Eastern China, we are also in the process of setting up our Suzhou production facility, which will be installed with one production line for production of Fresh Product drinks and equipment for manual production of desserts and snacks.

The table below sets forth the details of our planned production expansion for the Tai Po production facility and Suzhou production facility .

Approximate estimated cost and source of funding	Approximate estimated cost breakdown	Estimated time for commencement of operation	New production line(s) and estimated annual production capacity	
<b>Tai Po production facility</b>				
HK\$76 million	Construction and development:	Trial operation:	Long Shelf-life Drink:	68.6 million bottles
— funded by internal resources and bank loans	— HK\$38 million	— June 2014	Fresh Product drinks:	16.8 million bottles
	New equipment:	Fully operative:	Soup:	9.7 million packs
	— HK\$38 million	— September to October 2014	Tortoise and herbal jelly:	1.5 million packs
			Tortoise and herbal jelly:	6.5 million cups
			Dessert/congee:	2.2 million packs
<b>Suzhou production facility</b>				
HK\$12 million	Construction and development:	Trial operation:	Fresh Product drinks:	27.0 million bottles
— funded by internal resources and bank loans	— HK\$2 million	— June 2014		
	New equipment:	Fully operative:		
	— HK\$10 million	— September 2014 (subject to obtaining of all necessary licences)		

## BUSINESS

We expect to incur approximately HK\$76 million in connection with the expansion of our production facility in Tai Po, Hong Kong and approximately HK\$12 million for the establishment of new production facility in Suzhou, PRC, both of which will be financed by bank loan and internal resources. The Tai Po production facility is expected to commence trial operation in June 2014 and become fully operative in September to October 2014 and the Suzhou production facility is expected to commence trial operation in June 2014 and become fully operative in September 2014 (subject to obtaining of all necessary licences).

### ***Suzhou production facility***

We are in the process of setting up our Suzhou production facility with one production line for Fresh Product drinks and production equipment for manual production of desserts and snacks, which are expected to commence trial operation in June 2014 and full operation in September 2014 (subject to the obtaining of all necessary licences). The Fresh Products produced at the Suzhou production facility will serve mainly our retail sales in Shanghai and some Fresh Product drinks will serve our Indirect Sales in Eastern China (華東) and Central China (華中) areas.

### ***Tai Po production facility***

Through the Taclon Acquisition, we acquired the production facility of Taclon in Tai Po, Hong Kong, which currently comprises two production lines for production of bottled distilled water, are for production of a small quantity of bottled water for Aqua Pure, a connected person of our Company, for details of which please see the section “Relationship with Controlling Shareholders — Delineation of our business from the business of Aqua Pure” in this prospectus. We are in the process of setting up new production facility at the production facility of Taclon to supplement and gradually replace our production facility in Tsuen Wan, the lease for which will expire in December 2014. Our Tai Po production facility is planned to have six production lines, with one production line for Long Shelf-life Drink, one for Fresh Product drinks, one for soups, two for tortoise and herbal jelly and one for dessert/congee. We intend to first set up new production lines for Fresh Products, and also plan to set up production lines for Long Shelf-life Drinks in order to match the planned expansion of our distribution business in China and sales of Long Shelf-life Drinks overseas by leveraging on the “made in Hong Kong” concept.

For details of the principal terms of the lease in respect of our Tai Po production facility, please see the paragraph “Properties — Properties in Hong Kong” below in this section.

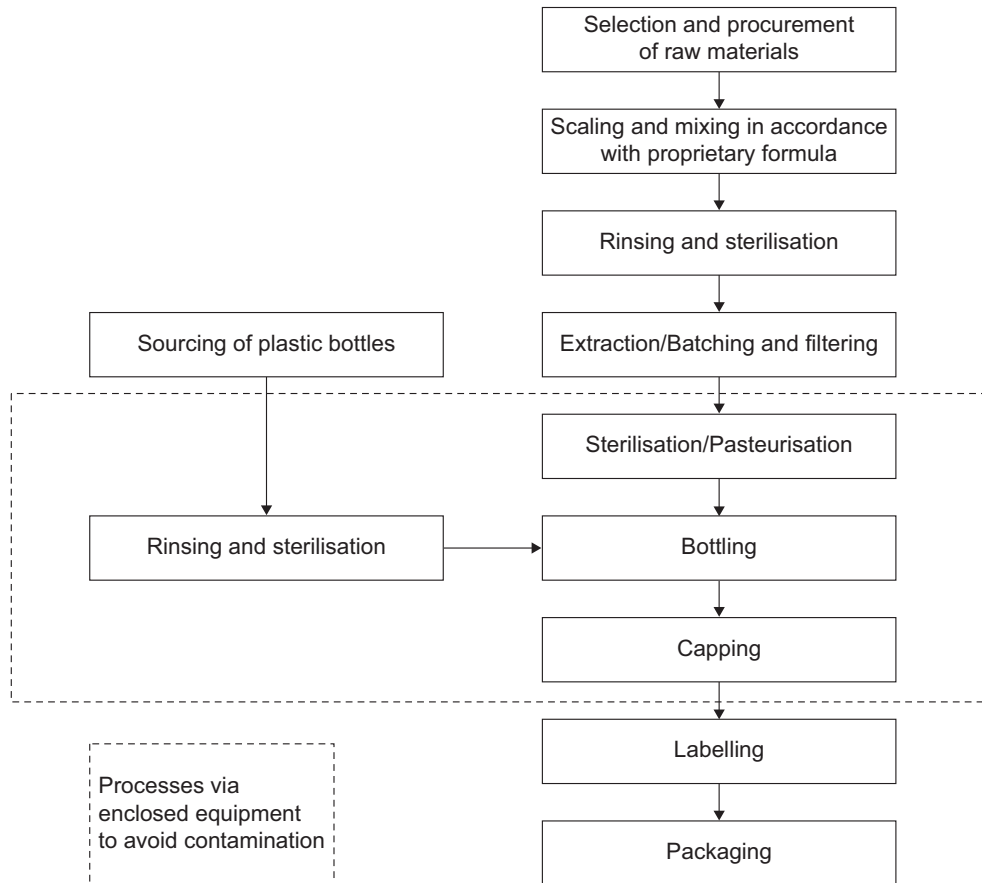
### **Production Equipment**

Our major production machinery and equipment includes bottling machines, sterilisation systems and extraction equipment, which are all owned by our Group. We carry out daily inspection and minor maintenance of our machinery, and perform yearly extensive inspection and maintenance work. Our production equipment is designed to suit our production needs. We purchase most of our equipment from manufacturers who construct the equipment according to our specifications. We carry out routine cleaning and maintenance of our production equipment and also conduct major maintenance work annually. Our maintenance system ensures that we continue to maintain operating efficiency and high quality control standards. We did not experience any material interruptions to our production process due to equipment or machinery failure during the Track Record Period.

# BUSINESS

## Production Process of Long Shelf-life Drinks

The following diagrams illustrate the production process for Long Shelf-life Drinks:



The production process of our Long Shelf-life Drinks typically involves the major steps set forth below.

### *Processing*

- Scaling and mixing — The ingredients are weighed and mixed in proportion based on our formula.
- Rinsing
- Extraction/batching — The mixed ingredients are boiled at such temperature and for such time as specified in our recipe.
- Filtering — The semi-processed materials are centrifuged and filtered to separate the liquid and residue.

### *Ultra-high temperature sterilisation/pasteurisation*

- Ultrahigh temperature sterilisation and pasteurisation — The liquid is sterilised in steriliser heated to 108 to 144 degrees Celsius for 20 or 30 seconds (depending on the product type).

# BUSINESS

## *Bottling*

- Cleaning of bottles — Bottles are rinsed with sterilised water before the packaging process in order to maintain the aseptic conditions inside the packaging material after filling in the drink.
- Filling — The liquid is filled into bottles in filling machine which are rinsed regularly with sanitiser and monitored by particle counter according to clean room standards to avoid contamination by air-borne particles or micro-organisms.
- Capping — The bottles are capped with seal caps to ensure that the drinks will not be physically contaminated.

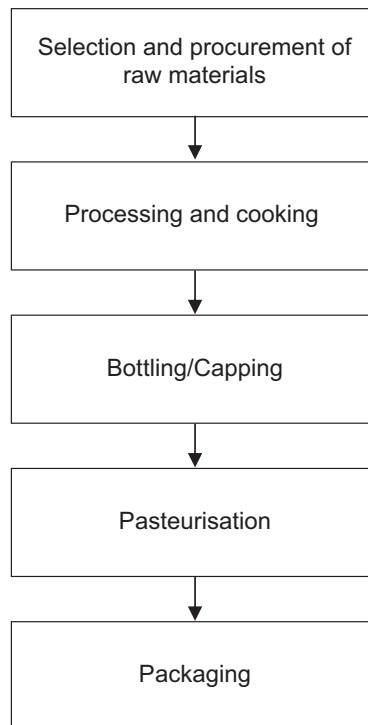
## *Packaging*

- Labelling — The bottles are wrapped in labels pre-printed with the product's name, description, ingredients, nutritional facts and information about the manufacturer.
- Packaging — The bottled products are packaged into boxes before they are transported.

## **Production Process of Fresh Products**

The production process of our Fresh Products varies depending on the types of products, including drinks, soups, herbal jelly, rice, noodles, congees and snacks, but typically involves major steps set forth below.

The following diagram illustrates the production process for Fresh Products:



## *Processing and cooking*

- Rinsing and cleaning of raw materials

## BUSINESS

- Boiling or cooking depending on the type of products
- Flavouring

### *Pasteurisation and bottling*

- Pasteurisation — The product is sterilised at 95 to 125 degrees Celsius for at least 20 seconds.
- Bottling — The product is placed into container by hot-fill procedure at 85 or higher degree Celsius in a hygienic environment to minimise contamination by micro-organisms which complies with safe microbial standard and for the required shelf-life for the relevant product type.
- Capping — The bottle is capped with seal cap or the container is sealed to ensure that the drinks or food products will not be physically contaminated.
- Labelling — The products are labelled with the product's name, description, ingredients, nutritional facts and information about the manufacturer in compliance with the relevant laws and regulations.

## QUALITY CONTROL

We have instituted rigorous quality control procedures in our production processes. We adhere to stringent quality control guidelines and conduct quality checks at various points of our production process. Our products undergo inspection at each key stage of the production process from sourcing of raw materials, processing to packaging, as well as post-production inspection and final checking before delivery. Products in inventory storage or in our retail shops are subject to quality audits and we also have standards in place for storage conditions. Our dedicated quality control team, comprising 45 staff members as at the Latest Practicable Date is responsible for implementing our quality control system at our production facilities, and our quality assurance team closely monitors the quality standards of our production facilities in order to ensure that our production systems and processes are in compliance with the applicable regulatory and quality standards set forth in details below. We have also established food safety committees, supervised by Mr. Kwan, our executive Director, to oversee our quality control system and standards, for details of which please see the paragraph "Quality Control — Food Safety Committee" below in this section.

We have adopted the Standard Operation Procedure (the "SOP") which is monitored by our quality assurance department which consists of nine staff, as at the Latest Practicable Date, responsible for overseeing the plant operation including the production process, the procurement of raw materials and inventory control. The quality control department is also responsible for reviewing the contents of the SOP from time to time. Our quality control system for production process at our production facilities covers mainly the aspects of (i) incoming quality control; (ii) in process quality control; (iii) final quality control; and (iv) out-going quality control.

### Quality Standards

We have obtained ISO22000:2005 certification, an ISO International Standard for Food Safety Management Systems, in relation to our product quality and safety control systems for our Shenzhen (Guanlan) production facility, which currently produces all of our Long Shelf-life Drinks and also produces Fresh Products sold in China. The ISO22000:2005 certification, comprise the parametres of Hazard Analysis and the Critical Control Point (HACCP) system, which requires demonstration of an ability to control food safety hazards in order to ensure that food is safe for human consumption, is a management system in which food safety addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product. This certification is subject to

annual independent audits by third parties. As water is an important ingredient of our products, in order to maintain the quality of our products, we have established and developed water quality standards with reference to the National Drinking Water Standards in Guanlan.

Our Tsuen Wan production facility has also adopted a comprehensive set of stringent quality control procedures, which we believe is commensurate with the top priority we place on our product quality and is compliant with the applicable regulatory standards in relation to food product quality, including, among other things, food ingredients production testing, procedure product testing, nutritional information and microbial counts.

Our Shenzhen (Guanlan) production facility strictly follows all relevant regulatory and industry standards for the manufacture of our products, including the various standards issued by the Standardisation Administration of the PRC (國家標準化管理委員會) or the Ministry of Health of the PRC (中華人民共和國衛生部), and have satisfied all quality control measures as required by the PRC General Administration of Quality Supervision, Inspection and Quarantine, or AQSIQ which is necessary to be permitted to sell our food and beverage products in China. We are also subject to periodic and random inspections by PRC government authorities to assess the quality of our products and production facilities. It has obtained the QS Food Production Permits (食品生產許可證) for the manufacture of our products from the municipal-level Bureau of Market Supervision and Management (市場監督管理局) for all our production facilities. For our export sales, it has obtained the Export food products producer filing certificate (出口食品生產企業備案證明) issued by Bureau of Inspection and Quarantine (直屬檢驗檢疫局). In order to obtain and maintain these certifications, we have to meet the quality and hygiene standards set by the PRC Government, covering different stages of the production process from raw material procurement, production, maintenance of production facilities to finished products and storage. These certifications are subject to routine independent audits by third parties, and each inspection is subject to its own procedures and requirements as set forth by the relevant authorities.

We have a dedicated quality assurance team which is responsible for conducting regular internal audits and closely monitors the quality standards of our production facilities in order to ensure that our production systems and processes are in compliance with the applicable regulatory and quality standards.

### **Incoming Quality Control on Raw Materials**

We adopt stringent quality control of our raw materials, which must be purchased from our approved list of suppliers. We select and evaluate our supplier for each category of raw materials based on a standard set of criteria, including the quality of their supplies, price, reputation and creditworthiness. Our quality assurance team conducts audit on some of our suppliers to review their quality control system, hazard analysis and ensure that critical control points are in place to assure safety of raw materials supply to us. We strive to produce our products with quality natural ingredients and without addition of any preservatives, artificial colouring or MSG, and we make great effort in the selection of raw materials from suppliers and pay attention as to whether any artificial additives are added. We conduct yearly site visits to our key suppliers and regularly take sample from products supplied by our suppliers for testing to ensure they satisfy our quality standard and safety requirements. We have also established purchasing procedures as contained in the SOP for routine operation.

When raw materials are delivered to us, our incoming quality control team will check to ensure that the quantity and quality of the raw materials meet our specifications, including having correct labelling and packaging, before they are accepted. Our incoming quality control team follows manual procedures to ensure they meet our quality standard based on their physical appearance, chemical qualities (such as brix sugar level and pH level) and microbial standards. Raw materials that do not meet our standard shall be rejected and returned to the suppliers.

## BUSINESS

To the extent that the raw materials are not required for immediate use, they will be stored at our storage spaces under controlled environments within a range of temperature and humidity to preserve their freshness and quality as well as to minimise the risk of contamination.

### ***Quality control of our tortoise herbal jelly***

In September 2013, there were certain negative news and reports in relation to hygienic problems and lack of tortoise plastron ingredients in the tortoise jelly sold by one of our major competitors in Hong Kong. We believe that as we have successfully established our brand image with an emphasis on our core value of using quality natural ingredients, including the use of genuine tortoise plastron (龜板) and Tufuling (土茯苓) (*Smilacis Glabrae Rhizoma*) in the production of our tortoise herbal jelly, we were able to maintain consumer confidence in our tortoise jelly products despite the negative news on our competitor's products, and our financial and business operations were not materially adversely affected. Cash receipt from cash sales and cash received for coupons and pre-paid membership card for tortoise herbal jelly products in September to December 2013 actually increased by 26.9% from that in the corresponding period in 2012.

For our tortoise herbal jelly, we implement stringent quality control on our formula and sourcing of raw materials, in particular for tortoise plastron supply. We purchase our sliced tortoise plastron from two suppliers in Hong Kong, each of which in turn sources tortoise plastron from a Chinese medicinal supplier in China which has obtained the certificate of good manufacturing practices for pharmaceutical products issued by the PRC State Food and Drug Administration (國家食品藥品監督管理局), certifying that the relevant supplier complies with the requirements of the Chinese Good Manufacturing Practices for Pharmaceutical Products (中華人民共和國《藥品生產質量管理規範》). As with our other Fresh Products, we also adopt stringent in-process, finished product and inventory and logistics quality control on our tortoise jelly products, for details of which please see the relevant paragraphs immediately below. With such control systems in place, we are confident that we can maintain and enhance consumer confidence in our tortoise herbal jelly.

### **In-process Quality Control**

We have implemented a series of product standards for different products in our production facilities. We conduct quality checks at key control points of our production process in order to ensure that the production process is operating properly and that there is no contamination or impurity which could affect our products. We set up sampling checkpoints at various stages of our production process in order to ensure that the production process is in order.

Our quality control teams perform routine product inspection and sample testing at each of our production lines. We carry out quality control at each stages of our production process with varying frequency according to the relevant product specifications. Our experienced production supervisors of the production divisions for each category of products are responsible for closely monitoring the production processes and ensuring that the products are in compliance with our SOP.

We also conduct comprehensive production process inspections to ensure that all of our production equipment and machinery satisfy national hygiene and safety standards. If a problem during production is detected, a detailed analysis will be performed to determine the cause.

We provide regular product quality, production safety and other technical training to our employees, including production personnel, quality control and inspection personnel, as well as managerial personnel, to ensure that they are kept abreast of the latest safety and hygiene requirements.

### **Finished Products Quality Control**

Our quality control officers at our production facilities are responsible for inspecting the finished products in samples and completing the product evaluation reports. We perform sampling inspections on finished products prior to dispatching those to the warehouse. We randomly pick bottles from the finished products from each production line at regular sampling intervals and test the quality, including the temperature, pH level and bacterial content.

### **Inventory and Logistics Quality Control**

Our finished products are packaged and stored at our storage spaces before they are delivered to our customers. These finished products are stored in designated zones within our warehouses according to their manufacturing dates and product categories. To maintain their freshness, our finished products are stored in well-ventilated and temperature controlled warehouses. Moreover, we undertake pest control regularly to ensure our warehouses are pest-free. When we conduct our regular stock count, we also identify the obsolete, expired, redundant and damaged inventory on a case by case basis and dispose of them if necessary.

We adopt measures to avoid contamination during the logistics process, including the use of vehicles with refrigerating compartments to transport our Fresh Products to avoid damage by high temperature.

### **Quality Control of Fresh Products at Retail Shops**

The shop manager of each retail shop is responsible for inspecting the products at the retail shop on a daily basis. If the quality of any products is found to be unsatisfactory, the products will be discarded and the shop manager is required to complete and submit a return form to the quality assurance department. Moreover, customers of our retail shops may complete customers' comment forms at our retail shops to provide direct feedback on the products we sell at retail shop.

### **Quality Control on Food Products Procured from Third-party Suppliers**

We sell certain food and snack products, such as buns, dried fruit products and sweets which we procure from third-party suppliers, principally at our retail shops. Our quality control department is responsible for ensuring that the quantity and quality of the raw materials meet our specifications and internal standards, before they are accepted, and our standards contain requirements on the product's physical appearance and conditions, temperature, shelf-life and expiry date, labelling and packaging quality.

### **Food Safety Committee**

We have set up a food safety committee, which reports to Mr. Kwan, our executive Director and a Controlling Shareholder. Our technical manager acts as the leader of the team and works together with our plant managers, operation managers, procurement managers, production managers and related department heads and report to Mr. Kwan on a regular basis. Our technical manager has obtained a master's degree of science from the University of Hong Kong and a certificate in microbiology testing from the University of Hong Kong (School of Professional and Continuing Education) in year 2007 and 2009, respectively. He worked as an assistant quality control manager of food safety issues in the food and beverage market industry prior to joining our Group in 2012. Our food safety committee comprises 25 staff members as at the Latest Practicable Date. Our technical manager is responsible for overseeing the review of quality of the food and products produced by our Group as well as that of our external suppliers (where applicable) on a regular basis. The rest of the team are engaged in performing quality assurance and quality control. For details, please see the paragraph "Internal Control and Risk Management Policies — Food Safety" below in this prospectus. Some of the staff in our food safety committee possess professional knowledge and/or qualifications in food science or related aspects.



## LOGISTICS

### Storage

We have ancillary storage space within the premises of each of our production facilities in Tsuen Wan, Shenzhen (Guanlan) and Dongguan in China where we store the raw materials required for our production, and finished products pending delivery. We have also leased two storage spaces in Hong Kong for storing packaging materials. The stock level of raw materials is managed by our logistics department, which is responsible for maintaining a sufficient inventory level of raw materials at our storage in accordance with the inventory level that is set by our logistics department based on sales forecast prepared by the retail operation department and Long Shelf-life Drinks department. For details, please see the paragraph “Inventory Control — Inventory Control of Raw Materials” below in this section.

### Logistics

Our Fresh Products for sale in Hong Kong are produced in our Tsuen Wan production facility and are generally delivered daily to our retail shops in Hong Kong. Fresh Products for sales in China and our Long Shelf-life Drinks are produced in our Shenzhen (Guanlan) production facility and delivered to our retail shops in China or our Indirect Sales customers on regular intervals depending on their locations. Our Long Shelf-life Drinks are all produced in our Shenzhen (Guanlan) production facility.

Our Long Shelf-life Drinks sales departments in Hong Kong and China generally send a weekly production plan based on the estimated required quantity to Shenzhen (Guanlan) production facility for the required quantity of each flavour of Long Shelf-life Drinks. We collect purchasing orders for Long Shelf-life Drinks from our customers, and issue a stock requisition form to our logistics department, which prepares the products according to our stock requisition form, and arrange for delivery to customers. Our customers will issue a receipt to us when the products are delivered to them, and our logistics department is required to confirm that the products have been properly checked and accepted by our customers.

The logistics for the distribution of our Long Shelf-life Drinks and Fresh Products is managed by the logistics department. We engage logistic companies, to deliver our finished products from our production facilities to our retail shops, distributors and third-party retailers.

## INVENTORY CONTROL

We maintain inventory control in respect of the ordering, storing, retrieving and purchase of raw materials and finished products. Our Directors consider that our Group has established a sound and reliable internal control system to ensure that the inventory records are properly and accurately kept to reflect the actual movements of the inventories of our Group.

### Inventory Control of Raw Materials

In order to avoid risk and undue expenses arising from over-stocking, our logistics department normally places purchase orders for raw materials based on the sales forecasts prepared by the sales department based on historical sales for our existing products and our experience for our new products.

### Inventory Control of our Fresh Products

For our Fresh Products, the production level is set based on our sales forecast prepared by our sales department in Hong Kong and operation department in China based on historical sales performance, and daily input from our retail shops through our POS system.

## BUSINESS

The inventory levels of each of our retail shop are set by our district officer and the shop manager of the respective retail shops. Generally we have two inventory levels set for each retail shop, one for weekday and the other for weekend. In setting the inventory levels, factors such as shop size and its daily sales volume have been taken into account. The shop manager of each retail shop is required to adhere to the inventory levels set and shall make reference to the shop's inventory and the estimated sales volume to place replenish orders where necessary.

Generally, the shop managers of the retail shops are required to ensure the accuracy of the inventory level of each kind of products by performing a stock count everyday and completing a daily inventory report, by conducting a small scale inventory check on product randomly chosen by our POS system, the results of which are kept for inspection by district manager and our internal audit department when they visit the retail shop.

Apart from adhering to the inventory levels set, we have in place certain guidelines for our employees to follow regarding the display of our Fresh Products at our retail shops. We require all chillers located at our retail shops to be fully stocked and products should be stacked in a neat and organised way. It is also our policy to provide customers with a wide variety of products to choose from, as such, our shop managers are responsible to ensure that sufficient stock is in place for all fresh products and the display chillers shall not be dominated by only a few types of fresh products.

Our logistics department will deliver the required amount of products according to the requirements of our retail shops. Upon delivery, our employee of our retail shops shall perform quantity checks prior to the confirmation of receipt. Our employee shall also update the relevant data in our POS system on the same day of the receipt day.

Our operation audit team will conduct random stock count and cash count at all retail shops on a monthly basis in order to check whether the inventory level has been maintained properly. Where discrepancies between the inventory level at the retail shops and the POS system have been identified, subject to the reasoning behind such discrepancies, our employees at the relevant retail shops may be required to compensate for an equivalent monetary value of the relevant products or certain inventory adjustments will be made.

### **Inventory Control of Long Shelf-life Drinks**

It is our policy to maintain stringent control over our inventory level in compliance with the with our target level. The inventory control team is responsible for conducting a full inventory count on a monthly basis with the objective of keeping proper inventory record and minimising waste of inventory arising from obsolescence and slow inventory movement.

It is also our policy to maintain a certain stock level of each kind of products depending on the relevant sales forecast. The consumption period of the Long Shelf-life Drinks is usually one year from the date on which the Long Shelf-life Drinks passed final quality check and the date will be printed on each bottle. The finished products are shipped on a first-in-first-out basis to minimise storage costs and reduce the risk of deterioration of quality.

Our sales department prepares sales forecast based on the historical sales records of our sales managers who are in close contact with our distributors and third-party retailers. Our sales staff constantly liaises with the representatives of our distributors and third-party retailers in order to evaluate their sales performance, predicted demand and plan for their upcoming orders.

To ensure that we do not run out of stock, especially our core products, we keep stock levels at an appropriate range, which is generally equal to approximately one to two weeks of sales. We determine the minimum stock level based on the sales and delivery time from Guanlan production facility to Hong Kong.

## BUSINESS

Our sales administration department conducts stock count on monthly basis, which is monitored and reviewed by our internal auditors. Our head of sales administration department is responsible for ensuring that all stocks are accounted for and discrepancies between stock on the stock registers and the actual quantity must be recorded, and reconciled with corrections which must be approved by our assistant general manager.

When we conduct stock count, we also identify the obsolete, expired, redundant and/or damaged inventory and dispose of them if necessary. Reasons for disposal must be recorded and submitted to our assistant general manager for approval and authorisation before they are disposed of and written off. If we receive any report of defective or damaged products from our customers, a goods return form has to be completed and submitted to the assistant general manager for approval.

In order to keep track of our inventory level, the head of our sales administration department regularly reviews the daily stock report and the monthly stock count report which are prepared by the team members of our sales administration department and will communicate with our production department to make appropriate adjustment to our production level.

Apart from the procedures and policies set out in the above, our Directors also review the provision for inventory on a regular basis based on the inventory ageing report. Our Directors consider that we have made sufficient provision for slow moving and obsolete inventories which amounted to HK\$0.2 million, HK\$0.7 million and HK\$0.5 million for 2011, 2012 and 2013 respectively.

Please see the section “Financial Information — Discussion of Certain Key Balance Sheet Items — Inventories” in this prospectus for further details.

### CUSTOMER FEEDBACK

We collect customer feedback through our customer service hotline and email, instore customer feedback and suggestion forms and regularly conduct survey to monitor our customers' satisfaction level of our products. We also invite our club members to join our focus group for product tasting and discussion of promotion ideas. To channel the customer feedback to our different departments, we hold weekly shop review meeting with our district officers and management of retail operation and monthly customer service meeting.

#### Customer Suggestions and Complaints

We have in place a very comprehensive record of the customer suggestions and complaints in different aspects, including quality or quantity of our products, packaging of our products, our product promotion, our retail shop service or the use or expiry of our coupons or pre-paid membership cards. During the Track Record Period, we recorded, on average, approximately 78 customer complaints in relation to our products quality per year, based on our internal records. These complaints mainly relate to the product quality, such as moulded or presence of foreign substances (like bits of packaging materials and hair) found in our products. We also received approximately 18 complaints referred to us by the Consumer Council each year during the Track Record Period on average, which comprise complaints regarding non-acceptance of coupons or membership cards which has already expired without discretion, coupons for specified type of product cannot be used to redeem other products or has to be topped up with additional value for redemption of more expensive products, delay in processing the membership application, change of bonus point schemes for club members without giving specific notice to individual member, perceived unfriendly service of the staff at retail shop, capping design that the customer considered as unsatisfactory, membership card being stolen and used by an unknown third party. In 2011, 2012 and 2013, we received seven, three and three warning letters from the Food and Environmental Hygiene Department (“FEHD”), respectively after they received customer complaints relating to our products (the “Warning Letters”). These complaints generally concerned foreign substances found in our products. According to the Warning Letters, FEHD warned the relevant Group companies to take every possible step to prevent similar occurrence in the future or legal action would be taken against the relevant Group companies. Our

## BUSINESS

Directors are of the view that the number and nature of the complaints and Warning Letters received or referred to us were insignificant, considering the scale of our operation and that such complaints are common in the food and beverage market, to the best of our Directors' knowledge, and confirm that such complaints were not indicative of wider issue with our product, service, internal control or quality control systems, and they did not have any material adverse impact on our Group or our business operation. We treat customer complaints seriously and view them as a means to consistently improve our service and product quality. For each complaint received, we will promptly record the complaint in our internal records and our customer service department will regularly review our internal records of suggestions and complaints.

We have adopted control measures to prevent re-occurrence of similar incidents in the future. For example, we have (i) instructed our quality control staff to pay more attention to the relevant aspects of the product when they perform quality inspection; (ii) required our suppliers for certain raw food materials to not use easily detachable materials in packaging the relevant food materials; (iii) required our staff to inspect all incoming supplies of certain raw food materials which have often been found to contain foreign substances; (iv) reinforced the instructions to our staff to follow the relevant manuals in relation to the storage temperature and quality control in the process of delivery; and (v) reminded employees to minimise the time between receiving of products and placing them in their chillers or heaters as appropriate. In relation to the complaints about our coupons and membership cards, as part of our continuous efforts to improve our customer service, we have taken measures to strengthen the communication with the customers in relation to the sales of coupons and membership cards, including strengthening our training to our staff to heighten their awareness in relation to the promotion and sales of coupons and membership cards, and making the relevant terms and conditions on the application forms for the membership cards even more prominent.

Our customer service department is primarily responsible for complaints handling. It reviews the customers' opinions or complaints given to us through our customer service hot-line, customer suggestion forms, internet channels or other means, and it also monitors the media for such complaints. Under our customer complaint handling policy, the complaints will be categorised and passed to the relevant department for further action and reply, which we aim to make within three days. If the complaints are substantiated, we will take appropriate and timely remedial actions, including offering refund or compensation to our customers (subject to the approval by our head of the operation department), making improvement on our products, service performance and provision of suitable employee training.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any complaints from customers that had any material adverse impact on our brand, our business and results of operations.

### INTERNAL CONTROL AND RISK MANAGEMENT POLICIES

Our Directors are responsible for the formulation of and for overseeing the implementation of the internal control measures and the effectiveness of risk management system, which is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

In order to manage our external and internal risks and to ensure the smooth running of our business, we have engaged an independent internal control reviewer (the "**IPO Internal Control Reviewer**") in October 2013 to assist our Group and the Sole Sponsor to review our internal control system and provide recommendations for improving our internal control system. The IPO Internal Control Reviewer provides a wide range of professional services including corporate governance assessment and design, enterprise risk assessment, internal audit and compliance consultancy and advisory services and is experienced in providing consultancy services in internal controls and performing independent review on internal control and risk management systems. The IPO Internal Control Reviewer has conducted certain agreed-upon review procedures on our internal control

## BUSINESS

system in certain aspects, including revenue, purchases, fixed assets management, human resources, financial reporting and information technology. The IPO Internal Control Reviewer has upon its review of our internal control procedures identified certain deficiencies.

Having considered the review of the IPO Internal Control Reviewer, set out below are the major deficiencies, our Directors' recommendations and our rectification actions implemented as at the Latest Practicable Date.

Deficiency	Our Directors' recommendation	Rectification action
There was no formal assessment on risks surrounding our business.	It is recommended that we should revisit and assess the risks surrounding our business and their respective impact to our Group periodically in order to keep abreast of major changes in our business environment. We should document the risk assessment for future reference.	A risk management policy and relevant procedures was established in March 2014.  Our Long Shelf-life Drinks department will supervise and strictly enforce the sales contract management practices.
There was no treasury policy on investment and financing decisions.	It is recommended that we should establish an investment policy for our funding and investment requirements.	An investment policy was established in January 2014 to ensure our investment decisions are consistent with our goals and objectives.

### Cash Management

We make use of electronic cashiers or point-of-sale system to record every transaction occurred in our retail shops. Staff in retail shops is prohibited from withdrawing cash from the cashier machines to pay for day-to-day expenses; for this purpose, a separate petty cash system is maintained. At the end of each shift, the relevant staff counts the cash received in the cashier machine and another staff checks his/her results with the sales summary record in the electronic cashier or point-of-sale system. If the cash count is inconsistent with the record, the cashier is required to investigate the reason for the inconsistency and submit a report to head office. If the cash count is less than the record, the cashier is required to compensate our Company in respect of the difference. The counted notes and coins are packed in sealed container with the summary sales record signed by the staff who performed cash count and put in the safe for deposit with the bank. The sales amount, cash received and other related information is filled in a daily sales record by the two sales staff on duty in each shop before the shop is closed each day. After the cash is deposited with the bank, or collected by security company for some of our shops, the bank deposit receipt or receipt signed by the security company together with the daily sales record are submitted to our finance and accounting department at our head office. During the Track Record Period, we had not experienced any irregularity in our cash management system.

We adopt certain internal control procedures in our employees' manual to prevent misconduct of our staff such as bribery, fraud and theft, including guidance on strict compliance with the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong), prohibition against provision or creation of false documentation with the intention to defraud the management, and guidance that no direct or indirect illegitimate benefits or preference should be given to any third parties in the course of our business.

We also have in place protocols for our staff to follow upon the receipt of any benefits (such as festive gifts, preferential services and discounts) with a value of more than HK\$300, from any business partner of our Group (including suppliers and customers). Our staff are required, upon receipt of such benefits, to notify and make a declaration to our human resources department, which will then decide appropriate actions (if any) to avoid any potential case of bribery.

## BUSINESS

In addition, we regularly arrange for our staff to attend anti-bribery and corporate governance talks given by the Independent Commission Against Corruption for them to familiarise themselves with the relevant laws and consequences of breach.

### **Food Safety**

We have set up a food safety committee. Our technical manager acts as the leader of the team and works together with our plant managers, procurement managers, production managers and related department heads and report to Mr. Kwan on a regular basis. Our technical manager has obtained a master's degree of science from the University of Hong Kong and a certificate in microbiology testing from the University of Hong Kong (School of Professional and Continuing Education) in year 2007 and 2009, respectively. He worked as an assistant quality control manager of food safety issues in the food and beverage market industry prior to joining our Group in 2012. Our food safety committee comprises 25 members as at the Latest Practicable Date. Our technical manager is responsible for overseeing the review of quality of the food and products produced by our Group as well as that of our external suppliers (where applicable) on a regular basis. The rest of the team are engaged in performing quality assurance and quality control. Some of the staff in the food safety committee team possess professional knowledge and/or qualifications in food science or related aspects.

In the event of any outbreak of food safety issue, we have a well-developed tracing system for all our products, and recall procedures have been established in order to handle such issues. Where the possible cause of any food safety matter is found to have arisen from our supply chain, we would also undertake corrective and preventive measures in a speedy manner in order to minimise the disruption of our business operations.

During the Track Record Period, we had not experienced any material irregularity in our food safety control system.

### **Trade Secrets**

We have included non-disclosure provisions in our employment contracts in order to prevent leakage of our trade secrets during the employment period of our employees. We have also included restrictive covenants in all our employment contracts in order to preclude our employees from revealing our trade secrets to our competitors in our industry after they leave our Company. During the Track Record Period, we had not experienced any leakage of trade secrets in our business operations by our employees.

### **Corporate Governance**

We continuously strive to strengthen the role of our Board as a body responsible for decision-making concerning our Company's fundamental policies and upper-level management issues, and supervising the execution of business. Our Board includes three independent non-executive Directors to ensure transparency in management and fairness in business decisions and operations. The independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge.

We have established a risk management committee under the management of our Company, comprising our four executive Directors, financial controller and company secretary. The primary duties of our risk management committee are to deliberate risk management related policies and procedures, review the effectiveness of risk management activities and handle issues of emergency of our Company. For details of the members of risk management committee, please refer to the section "Directors and Senior Management" in this prospectus.

## BUSINESS

Specifically, we have formulated risk management guidelines and taken steps to prevent the occurrence of risks by disseminating the guidelines to senior management and all staff of our Company.

We have strengthened our auditing system to ensure the appropriate functioning of the risk management and operation oversight systems.

We have established the audit committee which comprises three independent non-executive Directors to review and monitor the effectiveness of our Company's financial controls, internal control and risk management systems. In addition, we have established an internal audit department comprising three members, who is responsible for undertaking extensive audits which cover the conduct of business by all members of our Group. Most of the members of the internal audit department have three to four years of working experience in auditing prior to joining our Group.

For internal control measures adopted in relation to our non-compliance during the Track Record Period, please see the paragraph "Legal and Regulatory Matters — Internal Control Measures" below in this section.

### AWARDS AND RECOGNITIONS

Our achievements over the years have been recognised by numerous awards, including the following:

Award	Year	Issuer of Award
My Favourite MTR Shops for Food & Beverage — Excellence Award 滋味美食人氣店 — 卓越大獎	2013	MTR Corporation 港鐵公司
Prestigious Corporate Brand — Judging Panel — Top Ten Prestigious Corporate Brand Award 卓越企業品牌選舉 — 評審團大獎 十大香港卓越企業品牌	2013	MingPao & MSc Marketing CUHK 明報及香港中文大學 市場學(理學)碩士課程
Prestigious Corporate Brand — Judging Panel — Best Socially Responsible Employer 卓越企業品牌選舉 — 評審團大獎 香港良心僱主品牌	2012–2013	MingPao & MSc Marketing CUHK 明報及香港中文大學 市場學(理學)碩士課程
Consumer Caring 2012 貼心企業	2012	GS1 Hong Kong 香港貨品編碼協會
Reader's Digest Trusted Brands Platinum Awards (Chinese Soup/Herbal Tea Shop) 「信譽品牌」白金獎 (中式湯水/涼茶店類別)	2012–2013	Reader's Digest 讀者文摘
Prime Awards for Corporate Social Responsibility 優秀社責企業	2009, 2011–2013	MetroBox 都市盛世
Hong Kong Service Awards 香港服務大獎 — 涼茶專門店	2008–2013	East Week 東周刊
Caring Company 「商界展關懷」標誌公司	2006–2013	The Hong Kong Council of Social Service 香港社會服務聯會

## BUSINESS

Award	Year	Issuer of Award
Superbrands Hong Kong 香港超級品牌	2002, 2012–2013	Superbrands 超級品牌
No.1 Sales (Wellness Drink), Nielsen Report 清怡健體飲品香港銷量冠軍	2002–2013	The Nielsen Company 尼爾森(香港)有限公司
Hong Kong Top Ten Brandnames Awards 香港十大名牌	2002	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會
Hong Kong Top Brand 香港名牌	2012–2013	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會 Hong Kong Brand Development Council 香港品牌發展局
My Favourite The Most Convenient MTR Shops — Excellence Award 我最喜愛至方便商舖 — 卓越獎	2012	MTR Corporation 港鐵公司
Prestigious Corporate Brand — Judging Panel Grand Award by Hong Kong Category (Chinese Herb Tea Shop) 卓越企業品牌選舉 — 評審團大獎 (涼茶專門店類別)	2012	MingPao & MSc Marketing CUHK 明報及香港中文大學 市場學(理學)碩士課程
Outstanding Sales Performance Awards within a category — Beverages* 貨品類別銷售傑出表現大獎 — 飲品類	2008–2012	7-Eleven 7-11
MTR Shops Top Chic Products Poll — Top 10 人氣十大型品潮選 — 滋味型品	2011	MTR Corporation 港鐵公司
Hong Kong Prestige Corporate Brand — Hong Kong Consumer Grand Award by Category (Chinese Herb Tea Shop) 香港驕傲企業品牌 — 香港消費者類別大獎 (涼茶專門店)	2011	MingPao & MSc Marketing CUHK 明報及香港中文大學 市場學(理學)碩士課程
Hong Kong Prestige Corporate Brand — Judging Panel Grand Award by Category (Chinese Herb Tea Shop) 香港驕傲企業品牌 — 評審團類別大獎 (涼茶專門店)	2011	MingPao & MSc Marketing CUHK 明報及香港中文大學 市場學(理學)碩士課程
Friend of Social Enterprise 2011 2011社企摯友獎	2011	Home Affairs Bureau, The Government of the HKSAR and Social Enterprise Advisory Committee 香港特別行政區政府民政事務局及 社會企業諮詢委員會



## BUSINESS

Award	Year	Issuer of Award
Favourite Brands Awards — Outstanding Performance within a Category — Beverages 十大超市名牌 — 出類拔萃獎 — 飲品類	2007, 2010–2011	Wellcome 惠康超級市場
MTR Shops Stylish Convenience Products — Top 10 十大最型商品選舉	2010	MTR Corporation 港鐵公司
Hong Kong Prestige Corporate Brand — Judging Panel Award (Food & Beverage Retail Category) 香港驕傲企業品牌 — 評審團大獎 (食物及飲品零售業類別)	2010	MingPao & MSc Marketing CUHK 明報及香港中文大學 市場學(理學)碩士課程
Character Company 香港有品企業	2010	Sino Promise International Limited 中諾國際有限公司
The Outstanding Brand Awards 實力品牌大獎2010	2010	Economic Digest 經濟一週
Always Something New Award 十大新鮮感大賞	2009	Circle K OK便利店
Brand Conscience Award — Award of the Year 良心品牌大獎	2009	Hong Kong Institute of Marketing 香港市務學會

### MARKET AND COMPETITION

We mainly operate in the food and beverage market in Hong Kong and China, which is highly fragmented, and our principal products mainly fall within the Chinese herbal drinks segment and the processed food segment, (i.e. our Chinese soups and tortoise jelly products) of the fragmented food and beverage market.\*

See the section “Industry Overview — II. Overview of the Food and Beverage Market in Hong Kong and China” in this prospectus for further details of the relevant market.

Our Group was the top ranked retailer of Chinese herbal drinks, soups and jelly products in Hong Kong with the largest number of retail stores and market share of approximately 34.4% in 2013, according to the Ipsos Report. Top five leading players are local retailers which have adopted a chain stores business model. Retailers of Chinese herbal drinks, soups and jelly products compete primarily on the number and location of retail stores as well as product quality and variety.

In relation to our Indirect Sales, we were the third largest Chinese herbal drinks, soups and jelly products player in terms of sales revenue through third party distribution channels in Hong Kong with a market share of approximately 10.2% in 2013, according to the Ipsos Report. The distribution sales market for Chinese herbal drinks, soups and jelly products is a concentrated market with the top five players accounting for about half of the market share. Potential entrants to this market face fierce competition from existing dominant players which comprise multinational players as well as local players with well-established brand recognition and product offerings.

*Note:*

\* As the food and beverage market in Hong Kong and China is highly fragmented, no ranking can be obtained for the relevant market.

## BUSINESS



Although our sales in China were not very significant to us during the Track Record Period, we believe it represents a huge market potential to us in future when our brand is gaining market awareness and recognition.

According to the Ipsos Report, market players in China mainly compete on the basis of successful branding built by massive marketing and advertising activities and extensive distribution network. We place great emphasis on our modern production system and employ stringent product quality control and safety standards over the entire production process. We believe our deep knowledge of traditional Chinese herbal culture and emphasis on product quality and safety can effectively enhance our market penetration in China.



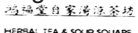
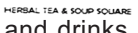
### INTELLECTUAL PROPERTY


We currently operate our business under our core brand, “鴻福堂 (Hung Fook Tong)”. We have registered, and have applied for registration of, a variety of Hung Fook Tong-related trademarks, including, among others, trademarks incorporating “鴻福堂” and “Hung Fook Tong” in a number of jurisdictions, including Hong Kong, China and overseas such as Singapore, Macau, Taiwan, Canada, USA, Japan, Australia and Malaysia.

#### Hong Kong

In Hong Kong, we have registered Hung Fook Tong-related trademarks such as , **HUNG FOOK TONG** and  under various classes which cover the range of goods and services offered by our Group.

#### PRC

In China, we have registered Hung Fook Tong-related goods marks such as  and  under various classes. We have also registered  **HUNG FOOK TONG** and  covering our services in the provision of food, soups and drinks.

Historically, all of our PRC retail shops (except our three retail shops in Shanghai which have been operated by our Group directly since their respective commencement of operation) were operated as individual proprietorships under entrustment arrangements with each of Mr. Kwan, our executive Director and a Controlling Shareholder, and Ms. Lam Hiu Yin (林曉燕), a friend of our Controlling Shareholders and an Independent Third Party, for and on behalf of HFT International, and we are in the process of transferring our PRC business operations from individual proprietorships to our branches under HFT (Guangzhou) Trading. During the Track Record Period, our PRC operations were operated under our brand. As at the Latest Practicable Date, our branches display the name of one of our Group companies, namely, HFT (Guangzhou) Trading or HFT (Shanghai), and our registered trademarks such as **HUNG FOOK TONG** or  on our signboards. Our PRC Legal Advisers have advised that such an arrangement is legally acceptable under the relevant PRC laws and regulations.

As at the Latest Practicable Date, all material marks with respect to our business operations in Hong Kong and China had been duly registered or applied for registration.

Our company secretarial department is responsible for the management and control of our intellectual property rights in Hong Kong and China. We have sought advice from Hong Kong and PRC legal advisers to advise on our intellectual property rights registration and renewal matters. We conduct studies to ascertain whether there are any infringing acts in regions where we have a presence or we are considering to expand into. When we identify any infringing acts, we will consider appropriate actions. Our Directors are of the view that our existing policy and procedures are adequate to protect our intellectual property rights.

## BUSINESS

Our other intellectual property consists primarily of intellectual property rights with respect to our proprietary know-how and secret recipes. We have implemented a set of internal intellectual property management rules in our employees' manual. The use of our central production plant also enables us to preserve our secret recipes by disclosing it to a minimum number of staff on a "need-to-know" basis. Our employment contracts with employees and the employees' manual also contain confidentiality provisions with respect to the handling of our confidential information.

During the Track Record Period, no material claims or disputes were brought against us in relation to any infringement of trademarks, patents or other intellectual property. Our Directors are not aware of any use by any third party of our logo or brand and believe that there has been no infringement that would result in a significant potential impact to our business.

During the respective validity period of our registered trademarks, our Group is entitled to the exclusive use of our registered trademarks and no third party is allowed to provide identical or similar goods or services as our Group under identical or similar trademarks. As advised by our PRC Legal Advisers, we may obtain and enforce administrative orders requiring any infringing parties to cease their unauthorised use by instituting litigation, arbitration or other proceedings to enforce our intellectual property rights. When making decisions on whether or not to carry out enforcement actions in Hong Kong, China or elsewhere, our Directors will evaluate various options, taking into account factors such as our strategic business plan and the relevant costs and benefits of such actions. Negative publicity or customer disputes and complaints regarding any infringing parties' unauthorised use of trademark, brand or logo which is identical or similar to those of our Group could dilute or tarnish our brand appeal, which could materially reduce our sales, profitability and prospects even if we are able to successfully enforce our rights.

For further details of our intellectual property rights, see Appendix V to this prospectus.

### EMPLOYEES

We had a total of 1,128, 1,239 and 1,327 employees as at 31 December 2011, 2012 and 2013, respectively. As at 31 December 2013, we employed 833 employees in Hong Kong and 494 employees in China. The following table sets forth a breakdown of the number of our employees by function during the Track Record Period:

Number of employees	As at 31 December		
	2011	2012	2013
Long Shelf-life Drinks sales and marketing division	57	66	71
Business project development department	49	39	35
Logistics and storage department	67	71	82
Management and administrative support department	159	158	173
Procurement and plant production department	257	278	317
Quality management department	37	40	47
Research and development department	11	13	17
Retail operations sales & marketing division	491	574	585
<b>Total</b>	<b>1,128</b>	<b>1,239</b>	<b>1,327</b>

Our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees, including sales managers and staff. We believe high-quality customer service is a key attribute of our success.

Our staff costs include all salaries and benefits payable to all our employees and staff, including our Directors. Our staff costs amounted to 26.1%, 25.5% and 25.9% of our revenue in 2011, 2012 and 2013, respectively.

## BUSINESS

Due to changes in local labour laws and the general upward market trend, the salary level of employees in the food and beverage industry in Hong Kong has been generally increasing in recent years. We expect our staff costs to continue to increase as inflationary pressures in Hong Kong continue to drive up wages.

To streamline our operation and reduce our administrative burden in China, we have worked, and expect to continue working, with one independent third-party employment agency to engage certain of our staff in China. We enter into labour supply contracts with this agency. The agency is responsible for making the relevant social security and housing funds arrangements and we pay social security and housing fund contributions of the staff into the accounts designated by our agency. However, we pay wages to our staff directly instead of through the designated accounts of our agency. In addition, we remain primarily responsible for supervising and managing the staff, as well as providing the training required by our staff to perform their work.

During the Track Record Period, we have not received or experienced any material labour dispute with our employees.

We strive to provide a safe working environment to our employees. We have implemented work safety guidelines for all our staff which set out our work safety policies and promote safety on work sites.

### **Training Programmes**

We believe our employees are the most valuable resources for our success. To ensure the quality of our employees at all levels and to secure a stable supply of future generations of management personnel, we have set up the staff development department to organise and oversee a comprehensive training programme for our employees. The goal of the training programmes is to train our employees and to identify talent, with the aim of providing upward mobility within our Company, fostering employee loyalty and incorporating customised mentoring, coaching and training.

For every newly recruited employee, we prepare a series of compulsory training which mainly focuses on hard skills such as company introduction and working procedure. We continuously provide tailored trainings and career guidance to our current employees in order to identify promising candidates as future managers. We believe our training programmes also help to promote internal upward mobility, which not only increases employee retention rates, but also produces the type and quality of management personnel needed for our rapidly expanding retail shop network. Another fundamental objective of our training programmes is to provide a sufficient number of well-trained employees for newly opened shops. The sales manager utilises his or her skills and know-how to train new sales staff. Our staff development department personnel introduce our standards and culture to the new team members.

### **Recruiting**

Recruitment of staff in the food and beverage industry is highly competitive, especially with respect to recruiting of sales staff. We believe we are hiring high-quality employees in the market by offering competitive wages and benefits, focused training and internal promotion opportunities. We have adopted a variety of initiatives to facilitate recruitment of our staff, such as recruitment fairs, advertisement in newspaper, magazines, internet website and posters. We believe our continuous efforts will help us attract suitable personnel.

## **PROPERTIES**

We lease all premises of our retail shop, production plants and office premises from third parties, except for an office premises which we leased from our Company's connected persons. We believe this leasing strategy reduces our capital investment requirements significantly. Our leases typically have a term of one to three years. Most of our current shop leases have expiration dates

## BUSINESS

ranging from 2014 to 2017. As at the Latest Practicable Date, 26 of our leases for our retail shops in Hong Kong and China, have expiry dates in 2014. We also own a property in Kwai Chung, which we leased to an Independent Third Party for which we received an insignificant rental income.

Our property rentals and related expenses in relation to our leased properties were HK\$68.7 million, HK\$81.4 million and HK\$89.7 million for 2011, 2012 and 2013, respectively. Lease rentals in respect of our retail shops were HK\$62.4 million (comprising HK\$60.9 million of fixed rent and HK\$1.5 million of variable rent) for 2011, HK\$74.7 million (comprising HK\$73.5 million of fixed rent and HK\$1.2 million of variable rent) for 2012 and HK\$83.4 million (comprising HK\$81.7 million of fixed rent and HK\$1.7 million of variable rent) for 2013.

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule thereto, which require a valuation report with respect to all of our interests in land or buildings, for the reason that, as of 31 December 2013, none of our properties has a carrying amount of 15% or more of our combined total assets.

### Properties in Hong Kong

As at the Latest Practicable Date, we leased 103 properties in Hong Kong in total, including premises for our 97 retail shops, with an aggregate GFA of approximately 3,016 sq.m., and our production facilities located in Tsuen Wan and Tai Po in Hong Kong have total GFA of approximately 3,654 sq.m..

In relation to our Tai Po production facility, the capital value of the property is below 15% of the total assets of our Group. As it is a production facility held under a long-term lease and comprises a substantial portion of the value of the total owned properties, we consider that the valuation of the property is important information and the relevant valuation report is set out in Appendix III to this prospectus.

The principal terms of the lease in respect of our Tai Po production facility are set out below:

Lessor	:	Hong Kong Science and Technology Parks Corporation
Lessee	:	Taclon
GFA	:	Approximately 11,093 square metres
Term	:	12 October 1987 to 30 June 2047
Permitted and stipulated use	:	(i) Manufacture of PET bottles; (ii) Distillation of water and putting such distilled water into bottles; (iii) Production of health drinks; and (iv) Production of herbal jelly, seasonal pudding, rice, congee, soup and convenience food, which shall be limited to a total area of 1,319 square metres.
Premium	:	HK\$10,001,596
Additional premium	:	HK\$7,640,000 (paid in 2013 for additional use of the premises for the production of herbal jelly, seasonal pudding, rice, congee, soup and convenience food, and increase in water consumption)
Annual rent	:	From 12 October 1987 to 24 June 1997 — HK\$46.00 per year From 25 June 1997 to 27 June 2047 — 3% of the rateable value of the land

There is no express termination clause in the relevant lease, but it is subject to forfeiture by the lessor if there is a breach of any material term of the lease, including the term on permitted and stipulated use. We have been advised by our legal advisers as to Hong Kong laws that, based on the information and representation provided by our Directors, the current and intended usage of the Tai Po production facility by our Group, as set out in the paragraph "Production — Production Facilities" above in this section, do not and will not result in a breach of the terms in relation to the use of the

## BUSINESS

premises in the relevant lease and outline zoning plan. In particular, usage (ii) set out above for the manufacturing of bottled water will be fulfilled by the production services to be provided by Taclon to Aqua Pure under the arrangement set out in the section “Relationship with Controlling Shareholders — Delineation of our business from the business of Aqua Pure” in this prospectus.

Two of our leased properties are used as our office, which is inconsistent with the use permitted under the occupation permits in respect of the relevant properties. These properties have an aggregate gross floor area of approximately 1,223 sq.m.. Please see the section “Risk Factors — Risks Relating to our Business — Our leased premises are subject to certain specific risks” in this prospectus.

As at the Latest Practicable Date, we have not received any notice or order from the Building Authority requiring us to discontinue the present use of the relevant premises. Our Directors believe that the relevant premises are not crucial to our operation, and there will be no material impact on our business or financial position should we be ordered by the Building Authority to discontinue our present use of these premises, because such premises are not used for our core operations and we would be able to relocate, with insignificant expenses, to comparable alternative premises.

### Properties in the PRC

As at the Latest Practicable Date, we leased 38 properties in China in total, including premises for our production facilities in Shenzhen and Dongguan, our office in Shenzhen, Guangzhou, Shanghai, Dongguan and Chengdu and our retail shops. 18 out of our 38 leased properties are used as our offices, our retail shops or production sites and the remaining 20 leased properties were leased in anticipation of our retail network expansion and the successful transfer of our business under the operation of sale proprietorship to our Group. For details, see “History and Development — History and Restructuring of our PRC Operation”.

Save and except for the title defects as disclosed in “Incidents of Non-compliance and Remedial Measures” below, our Directors believe that there are no existing defects of any of our properties that would constitute a material adverse on our operations and financial conditions.

### INSURANCE

Our Directors consider our insurance coverage to be customary for businesses of our size and type and in line with the standard commercial practice in the jurisdictions where we have operations.

In Hong Kong, we primarily maintain insurance for employee’s compensation for injuries or death in the course of employment, product liability, business insurance, public liability insurance and machinery all risks insurance.

In China, we primarily maintain property all risks insurance, public liability insurance and employer’s liability insurance policy. We believe that we are covered by adequate property and liability policies with coverage and insured limits that we believe are customary for similar companies in China. However, our insurance coverage may not be adequate to cover all losses that may occur. Please see “Risk Factors — Risks Relating to Our Business — We have limited insurance to cover our potential losses and claims” of this prospectus.

### LEGAL AND REGULATORY MATTERS

As at the Latest Practicable Date, save as disclosed in the paragraph “Legal and Regulatory Matters — Incidents of Non-compliance and Remedial Measures” below in this section, we have been in compliance in all material aspects with the applicable laws and regulations in all jurisdictions where we operate and have obtained all necessary approvals, permits licence, approvals and certificates that are material to our business operations from the relevant government authorities.

## **Hong Kong Regulatory Compliance**

### ***Licence and Permits***

Certain licences are required to be obtained and maintained for the operation of our retail shops and Tsuen Wan production facility in Hong Kong, which include food business licences, both issued by the Food and Environmental Hygiene Department, such as (i) food factory licences and (ii) light refreshment restaurant licences, and are generally granted for a term of one year and subject to annual renewal.

Our Directors confirm that the products produced or sold by us do not contain any Chinese herbal medicine set out in Schedule 1 of the Chinese Medicine Ordinance or proprietary Chinese medicine, sale of which requires licensing and registration under the Chinese Medicine Ordinance for sale of such medicine; or pharmaceutical products that are regulated under the Pharmacy and Poisons Ordinance (Chapter 138 of the Laws of Hong Kong).

As of the Latest Practicable Date, we operated 97 shops in Hong Kong. We have obtained the food business licences required for our retail shops in Hong Kong.

We have obtained for our operating retail shops in Hong Kong, 14 light refreshment restaurant licences<sup>(1), (2)</sup> and 57 food factory licences<sup>(3), (4)</sup>, all of which have remaining validity period with less than one year as at the Latest Practicable Date.

*Notes:*

1. The light refreshment restaurant licences are issued to our operating retail shops in Hong Kong where any of our Fresh Products, such as tea-flavoured eggs with ganoderma atrum and steamed bun with vegetable and meat, are manufactured and/or prepared on the premises and where food prepared by us is mainly consumed on the premises.
2. The food factory licences are issued to our operating retail shops in Hong Kong where any of our Fresh Products, such as tea-flavoured eggs with ganoderma atrum and steamed bun with vegetable and meat, are manufactured and/or prepared on the premises and where food prepared by us is mainly consumed off the premises.
3. As at the Latest Practicable Date, the food factory licences issued to each of our shops at Fu Tung Plaza, Tai Po Mega Mall, Shatin Centre, Tuen Mun Hospital and Sheung Shui Centre were provisional. We expect full food factory licences to be issued for each of such shops before expiry of the respective provisional licences. Provisional food factory licences are generally valid for six months.
4. As of the Latest Practicable Date, we have applied for light refreshment restaurant licences and food factory licences for our shops at Hoi Fung Centre, Wu Nam Street, Mallory Street, Smithfield, Amoy Plaza and Cheung Fat Plaza, respectively.

We will apply to renew the relevant licences when they are due to expire, and our Directors, as advised by our Hong Kong legal adviser, are not aware of and do not foresee any legal impediment to renew such licences when they expire.

To ensure that we would be able to timely obtain all necessary licences for our operations in Hong Kong, we have assigned a member of our management to keep track of the expiry dates of all relevant licences and apply for timely renewal. We will carry out our activities only when the relevant licences and/or permits have been obtained or renewed.

### **PRC regulatory compliance**

All of our relevant PRC subsidiaries have obtained and maintain permits and licences required for their production and sales activities, such as business licences and food distribution permits (食品流通許可證) for our retail shops in China, save for the entities which are in the process of being transferred as set out in the section “History and Development — History and Restructuring of our PRC Operation” in this prospectus.

As at the Latest Practicable Date, some of our retail shops in China and the relevant food distribution permits were still registered under Mr. Kwan, our Executive Director and a Controlling Shareholder, and Ms. Lam Hiu Yin (林曉燕), an Independent Third Party, for and on behalf of our Group, as set out in “History and Development — History and Restructuring of our PRC Operation”, and we are transferring our retail shops in China to HFT (Guangzhou) Trading to operate them as branches thereof. The food distribution permits registered under Mr. Kwan and Ms. Lam have been/will be terminated, and HFT (Guangzhou) Trading has applied/will apply for food distribution permits with respect to each of its branches. Our Directors expect the whole transfer process to complete by the end of July 2014 with all food distribution permits having validity periods of more than one year.

### **Regulatory compliance for export of Long Shelf-life Drinks**

During the Track Record Period, we sold some of our Long Shelf-life Drinks to our distributors in the United States, Canada, Malaysia, Australia, New Zealand, the Philippines, Taiwan and the United Kingdom. To the best of our Directors’ knowledge, the Long Shelf-life Drinks are classified as beverage products in such countries to which they are exported and no import licence is required and we have not received any notice relating to our non-compliance with relevant regulations in those export markets.

### **Incidents of Non-compliance and Remedial Measures**

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify and keep fully indemnified our Group, amongst others, against any claims, demands, costs, expenses, fines, penalty, charges and losses including but not limited to:

- non-compliance with section 122 of the Old Companies Ordinance;
- non-registration of lease agreements;
- renting premises with missing certificate of ownership;
- renting premises which locates on collective land;
- delayed application for the Industrial Products Manufacturing Licence;
- non-compliance with the relevant PRC laws and regulations in relation to advertisement and taxation; and
- non-compliance with the relevant PRC laws and regulations in relation to food safety as detailed below.



During the Track Record Period and up to the Latest Practicable Date, our Group has failed to comply with certain applicable laws and regulations in Hong Kong and the PRC respectively. A summary of such material non-compliances are set out below:

### Hong Kong

Summary of non-compliance incidents and reasons	Remedial measures, current status and provisions	Director/senior management in charge of the rectification	Legal consequences, the potential maximum penalty and financial impact	Analysis of the risk to our Company
<p><i>Non-compliance of section 122 of the Old Companies Ordinance (re-enacted as section 429 of the Companies Ordinance)</i></p> <p>Pursuant to section 122 of the Old Companies Ordinance, the directors of a company incorporated in Hong Kong are required to cause a profit and loss account and balance sheet to be made up and laid before its shareholders at each of its annual general meetings, and such accounts must be made up to a date falling not more than nine months before the date of the relevant annual general meeting.</p> <p>During the Track Record Period, two of our subsidiaries incorporated in Hong Kong failed to comply with this requirement on three occasions due to unintended and inadvertent omissions by the then manager of our company secretarial department.</p>	<p>We have made a voluntary submission to the Companies Registry in March 2014, disclosing such accounts-related non-compliance matters.</p> <p>The Company Registry has not yet levied any penalty up to the Latest Practicable Date.</p> <p>Based on the above reasons and indemnity provided by our Controlling Shareholders under the Deed of Indemnity, no provision was made for this non-compliance.</p>	<p>Mr. Kwan, our executive Director and managing director. For details, please see the section "Directors and Senior Management — Directors" in this prospectus.</p>	<p>A director who fails to take all reasonable steps to comply with the requirements is liable to a maximum fine of HK\$300,000 and may be sentenced to imprisonment for up to 12 months.</p>	<p>Under section 122 of the Old Companies Ordinance, if any person being a director of a company fails to take all reasonable steps to comply with the provisions of the section, he shall, in respect of each offence, be liable to twelve months' imprisonment and a fine provided that:</p> <p>(a) in any proceedings against a person in respect of an offence under the section, it shall be a defence to prove he had reasonable grounds to believe and did believe that a competent and reliable person was charged with the duty of seeing that the provisions of the section were complied with and was in a position to discharge that duty; and</p> <p>(b) a person shall not be sentenced to imprisonment for such an offence unless, in the opinion of the court dealing with the case, the offence was committed wilfully.</p> <p>The Companies Registry has not levied any penalty up to the Latest Practicable Date.</p> <p>On the basis described above, our Directors believe that, as advised by our Hong Kong legal adviser, it is unlikely for the relevant directors to be liable to imprisonment and/or a fine.</p>

**PRC**

**Summary of non-compliance incidents and reasons**

***Non-registration of lease agreements***

As at the Latest Practicable Date, certain lease agreements signed in relation to our leased premises in the PRC have not been registered or filed with relevant authorities within 30 days after the signing thereof in accordance with the applicable PRC laws.

Our Group has devoted considerable effort to arrange for the registration of the lease agreements. However, we are unable to register the lease agreements without the relevant landlord's assistance and after our request, certain landlords have still failed to register or file the lease agreements.

However, based on our PRC Legal Advisers' view that the failure to register the lease will not affect the validity of the lease agreements, we intend to continue using such premises despite the lack of lease registration as at the Latest Practicable Date.

***Renting premises with missing certificate of ownership***

As at the Latest Practicable Date, the landlord of two of our offices did not provide certificate showing official ownership of our leased properties in the PRC.

Our then manager of our administration department entered into the lease agreement, based on our understanding that the landlord has the right to lease the properties and is the actual legal owner to the properties.

**Remedial measures, current status and provisions**

As at the Latest Practicable Date, 15 of our lease agreements in respect of the properties leased and occupied by our Group had not been registered with the relevant authorities in accordance with the PRC laws and regulations as the relevant landlords were not willing to co-operate.

Given that our Controlling Shareholders agreed to indemnify our Group for such penalty pursuant to the Deed of Indemnity, no provision was made for this non-compliance.

Our Controlling Shareholders agreed to indemnify our Group in relation to the costs of rectification pursuant to the Deed of Indemnity.

**Director/senior management in charge of the rectification**

Ms. Tull Suk Ching, our assistant general manager. For details, please see "Directors and Senior Management — Senior Management".

**Legal consequences, the potential maximum penalty and financial impact**

Our PRC Legal Advisers have advised us that the failure to register the lease agreements will not affect the validity thereof and will not be subject to an order of relocation.

If a lease agreement is not registered within 30 days after the signing, the relevant authority is entitled to request the parties of the lease agreement to rectify the situation within a prescribed time limit. If the parties still fail to register the lease agreement, they may be subject to a maximum fine of RMB10,000 for each lease agreement not registered.

In the event of forced relocation, our Directors estimated that the time and aggregate cost required for relocation of operations in each of the aforesaid properties are approximately 3 months and approximately RMB200,000 respectively.

**Analysis of the risk to the Company**

We have not received any written confirmations from the relevant authorities concerning such non-registration of leases.

As at the Latest Practicable Date, our Directors confirmed that they were not aware of any administrative action having been taken by the relevant PRC authorities against our Group in respect of our lease registration.

Our Group is also negotiating with the relevant landlords for the registration of the lease agreements or inclusion of clauses in the lease agreements which would oblige the landlords to procure registration of the lease agreements upon their renewal.

As advised by our PRC Legal Advisers, if there is any dispute over the ownership of or the right to lease the properties, we may not be able to operate normally within the aforesaid leased properties. If the lease agreements are invalidated, revoked or terminated because the landlord does not have the legal title to the leased properties, we may be evicted from the properties.

Our Directors confirmed that there should be no significant difficulty in locating an alternative site in case of such forced relocation. As such it will not have any material adverse impact on our business operations or financial condition.

**Summary of non-compliance incidents and reasons**

***Renting premises which locates on collective land***

As at the Latest Practicable Date, our Dongguan production facility responsible for the production of PET bottles was constructed on a piece of collective land. The landlord of this property has not obtained the building ownership certificate prior to the construction of the property as required under the relevant law.

Our then manager of our administration department entered into the lease agreement based on our understanding that the landlord has the right to lease the property and is the actual legal owner to the property.

***Delayed application for the Industrial Products Manufacturing Licence***

In accordance with the PRC Industrial Products Manufacturing Licence Management Regulation, Gaoda (Dongguan) has obtained the required licence in June 2013.

Prior to June 2013, Gaoda (Dongguan) manufactured 1.5 million bottle containers without the requisite licence as our then manager of our company secretaries department was not familiar with the relevant laws and regulations, and was subjected to a penalty of approximately RMB201,550.

Pursuant to the Regulation of the PRC on the Administration of Production Licence for Industrial Products, no entity may use the product without the production licence, i.e. PRC Industrial Products Manufacturing Licence, in the course of business activities. Where any enterprise uses in the course of its business activities any product listed in the Catalogue for which it has not obtained a production licence, it shall be ordered to take remedial action and fined between RMB50,000 and RMB200,000, and have any illegal gains confiscated; where the circumstances constitute a crime, criminal liability shall be pursued in accordance with the law.

**Remedial measures, current status and provisions**

Our Controlling Shareholders agreed to indemnify our Group in relation to the costs of rectification pursuant to the Deed of Indemnity.

Gaoda (Dongguan) has obtained the required licence in June 2013 and duly paid the penalty of approximately RMB201,550 in full.

As advised by our PRC Legal Advisers, Gaoda (Dongguan) will no longer be subject to any further penalty in relation to our previous non-compliances. However, HFH may be ordered to take remedial action and be subjected to a fine.

**Director/senior management in charge of the rectification**

Ms. Tull Suk Ching, our assistant general manager. For details, please see the section "Directors and Senior Management" — Senior Management" in this prospectus.

Dr. Szeto, our executive Director and general manager. For details, please see the section "Directors and Senior Management" — Directors" in this prospectus.

**Legal consequences, the potential maximum penalty and financial impact**

In the event of forced relocation, our Directors estimated that the time and aggregate cost required for relocation of the operations in the aforesaid property are approximately 4 months and approximately RMB800,000 respectively.

The relevant authority could order a stop in the manufacturing of products, forfeit all unlicensed products, charge a maximum penalty of 3 times of the value of the unlicensed products, forfeit all illegal income and impose criminal liability.

However, our Group was only subject to a penalty of approximately RMB201,550 and the relevant authority did not order a stop to our production. The full sum of the penalty was paid by us in January 2013. Our Directors confirmed that there is no material impact on our business operation and financial condition.

**Analysis of the risk to the Company**

As advised by our PRC Legal Advisers, if there is any dispute over the ownership of or the right to lease the property, we may not be able to operate normally within the aforesaid leased property. If the lease agreement is invalidated, revoked or terminated because the landlord does not have the legal title to the leased property, we may be evicted from the property.

Our Directors confirmed that there should be no significant difficulty in locating an alternative site in case of such forced relocation. As such it will not have any material adverse impact on our business operations or financial condition.

HFH may be ordered to take remedial action and fined between RMB50,000 and RMB200,000. However, as confirmed by our Directors, we were not ordered to take remedial action or fined for this matter as at Latest Practicable Date.

Summary of non-compliance incidents and reasons	Remedial measures, current status and provisions	Director/senior management in charge of the rectification	Legal consequences, the potential maximum penalty and financial impact	Analysis of the risk to the Company
<p><b>Non-compliance with the relevant PRC laws and regulations in relation to advertisement</b></p> <p>HFH had on 3 occasions in 2012 and 2013 been penalised for a breach of the relevant PRC laws and regulation in relation to advertisement by stating the slogan "First choice of healthy modern citizens" on the package of some of our Long Shelf-life Drinks.</p> <p>The non-compliance was mainly caused by a lack of comprehensive knowledge by the then manager of our marketing department on the relevant area of law and internal control measures to ensure full compliance with the advertising requirements in the PRC.</p>	<p>We have fully paid up the penalty and the fee to be confiscated.</p> <p>As at the Latest Practicable Date, we have also removed the relevant slogan from all our packaging materials.</p>	<p>Dr. SzeIo, our executive Director and general manager. For details, please see the section "Directors and Senior Management — Directors" in this prospectus.</p>	<p>HFH was subject to an aggregate penalty of RMB30,870 and the advertisement fee of RMB11,013 was confiscated.</p> <p>Our Directors confirmed that there is no material impact on our business operation and financial condition.</p>	<p>None</p>
<p><b>Non-compliance with the relevant PRC laws and regulations in relation to food safety</b></p> <p>In December 2012, HFH had been discovered producing ginseng with honey Long Shelf-life Drinks under an industrial products manufacturing permit at the time of inspection by the relevant government authority.</p> <p>Under the relevant laws and regulations, ginseng is a regulated health product in the PRC and was not included as one of the permitted products under the industrial products manufacturing permit held by HFH.</p> <p>The non-compliance was caused as our Directors were not familiar with the relevant PRC laws and regulations by then.</p>	<p>We have fully paid up the penalty and forfeited income.</p> <p>As advised by our PRC Legal Advisers, we will no longer be subject to any further penalty in relation to our previous non-compliances.</p>	<p>Dr. SzeIo, our executive Director and general manager. For details, please see the section "Directors and Senior Management — Directors" in this prospectus.</p>	<p>HFH was subject to a penalty of RMB40,000 and a forfeited income of RMB1,608.</p> <p>Our Directors confirmed that there is no material impact on our business operation and financial condition.</p>	<p>None</p>
<p><b>Non-compliance with the relevant PRC laws and regulations in relation to trademark</b></p> <p>In August 2013, HFH had been discovered using the mark "鴻福堂藥骨草®", which has not registered as a trademark in PRC as a registered trademark on the package of some of our Long Shelf-life Drinks.</p> <p>This was due to a mistake made by our then manager of our marketing department as to which of our marks have been registered and which were still being applied for registration.</p>	<p>We have fully paid up the penalty and the fee to be confiscated.</p> <p>As at the latest Practicable Date, we did not use the mark "鴻福堂藥骨草®" as a registered trademark.</p>	<p>Dr. SzeIo, our executive Director and general manager. For details, please see the section "Directors and Senior Management — Directors" in this prospectus.</p>	<p>HFH was subject to a penalty of RMB1,809.</p> <p>Our Directors confirmed that there is no material impact on our business operation and financial condition.</p>	<p>None</p>

**Internal Control Measures**

We have adopted the following measures to ensure on-going compliance with all applicable laws and regulations after the Listing and to strengthen our control environment at the monitoring level:

- (i) since March 2014, we have been implementing the following internal control measures to ensure compliance with the Listing Rules and the relevant Hong Kong and PRC laws and regulations:

*Accounts-related and general non-compliance matters*

**Measure to ensure compliance**

The following internal control measure have been adopted by our Group:

- (a) we have appointed Mr. Tsang Kai Ming as our company secretary to oversee our secretarial and accounting matters.
- (b) Mr. Tsang Kai Ming is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountant and is qualified to act as a company secretary of a listed company under the Listing Rules. He has experience in handling compliance matters of listed companies and will ensure our compliance with the Listing Rules, the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance with respect to accounts-related matters and other company secretarial matter.

*PRC leases-related compliance matters*

**Measures to ensure compliance**

The following internal control measures have been adopted by our Group prior to taking up leases in the PRC in the future:

Overseeing the process

We have designated our leasing team, comprising two members and led by our marketing department to monitor the compliance status of our new retail shops. Our leasing team reports to our general manager and assistant general manager on a regular basis.

Selection of shops' premises

Our Directors and senior management are responsible for conducting site visits and making commercial negotiations and decisions in relation to the selection of premises of our retail shops in China.

Land use of our target retail shop premises

We will apply to the PRC Institute of Food Safety Control and Inspection for an inspection on our target retail shop premises, which will provide a confirmation on whether the target retail shop premises is suitable for restaurant operations.

## BUSINESS

Water and electrical-related safety matters	Upon receipt of the confirmation from the PRC Institute of Food Safety Control and Inspection, our engineering team will conduct preliminary check on water and electrical-related safety matters on the target retail shop premises. We will also engage independent PRC qualified engineer to supervise all water and electrical-related safety matters to ensure compliance with the relevant laws and regulations.
Structural safety of our target retail shops premises	We will engage independent contractors and engineers to ensure that the building or structural works located at our targeted premises are in compliance with the relevant laws and regulations.
Title and ownership of our target retail shops premises	Our leasing team will check the title ownership certificate, land use right certificate and other documents evidencing right of the landlord to lease the relevant property. We will also engaged external PRC legal advisers to perform due diligence in relation to the title and ownership of our target retail shop premises to ensure that there is no material title defects or encumbrances on our target retail shop premises.
Registration of lease agreement	Our leasing team will be responsible for liaising with the relevant lessor for the due registration of the lease agreement.
Lease agreement	We will endeavour to require our lessor to warrant in the lease agreement that they possess the legal right to lease the premises and undertake to register the lease agreements with the relevant authorities. We will look for alternative property with comparable commercial value if a potential lessor refuses to give such warranty and undertaking in the relevant lease agreement.
<i>Food business and/or manufacturing licences related matters</i>	<b>Measures to ensure compliance</b>  (a) <i>Internal control committee</i>  We have established an internal control committee comprising three members, headed by Dr. Szeto. The primary duties of our internal committee are the oversight of all compliance-related issued of our Group, including financial reporting, compliance with the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and retail shop operations. Our internal control committee supervises our company secretaries department to oversee food business and/or manufacturing licences related matters of our existing and new retail shops and/or factories.

(b) *Company secretaries department*

We have designated our company secretaries department to handle all food business and/or manufacturing licences related matters of our existing and new retail shops and production facilities.

Our company secretaries department comprises Mr. Tsang Kai Ming, as the head of the department, and three other members.

Mr. Tsang Kai Ming is a member of the Hong Kong Institute of Certified Public Accountant and a fellow member of the Association of Chartered Certified Accountant. The most senior member of the company secretaries department has 10 years of relevant experiences in the food and beverages industry and has been handling the licence and permit matters of our Group.

Our company secretaries department supervises the application and renewal of all required licences, permits and approval, by working together with external legal advisers (where applicable) and monitoring the pending expiration dates of all licences, permits and approvals.

*Trademark related-matters*

**Measures to ensure compliance**

We have designated two members in our marketing department to handle the compliance matters of our promotional materials under the relevant intellectual property laws and regulations. We may consult our external legal advisers where necessary.

- (ii) as disclosed in “Internal Control and Risk Management Policies” above, we have engaged an independent internal control reviewer, who has reviewed our internal control procedures and identified certain deficiencies. Our Directors have considered their finding and have made certain recommendations to resolve such deficiencies, in response to which we have also carried out the relevant rectification actions.
- (iii) we have established the audit committee on 11 June 2014 which comprises of three independent non-executive Directors, namely Mr. Andrew Look (as the chairman), Mr. Kiu Wai Ming and Professor Sin Yat Ming, all of whom possess extensive experience in financial management. The audit committee has also adopted its terms of reference which set out clearly its duties and obligations for ensuring compliances with the relevant regulatory requirements. In particular, the audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters;
- (iv) our Directors and other members of our senior management have attended training on 10 March 2014, conducted by our Hong Kong legal adviser on the on-going obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures Ordinance and the Listing Rules; and

## BUSINESS

- (v) we have established in 1 April 2014 an internal control committee to oversee, among others, compliance with the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and compliance status of our retail shops.

Based on the above, our Directors are of the view that we have taken reasonable steps to establish internal control system and procedures to enhance the control environment at both working and monitoring level, and therefore, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures adopted by us are adequate and effective in significantly reducing the risk of future non-compliance with legal and regulatory requirements in Hong Kong and China.

### HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

Our business is subject to relevant Hong Kong and PRC national and local health, work safety, social and environmental laws and regulations.

In relation to environmental protection matters, relevant PRC national and local laws and regulations, among other things, require the payment of fees in connection with activities that discharge waste materials and which impose fines and other penalties on facilities that threaten the environment. Our production process produces a small amount of waste water and solid wastes. We have installed environmental protection equipment to treat and, where possible, recycle waste materials. We have procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations.

To ensure compliance with applicable laws and regulations, we have appointed a manager to supervise and monitor compliance with statutory regulations and our internal standards in respect of health, work safety, social and environmental matters and we keep a record of relevant accidents and non-compliance.

Our Directors are of the view that the annual cost of compliance with applicable Hong Kong and PRC health, work safety, social and environmental laws, regulations and policies was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

We have not been subject to any material claim or penalty in relation to health, work safety, social and environmental protection and have not been involved in any accident or fatality and have been in compliance with the applicable Hong Kong and PRC laws and regulations in all material aspects during the Track Record Period.

### LEGAL PROCEEDINGS

From time to time we have been, and may in the future be occasionally, involved in routine legal proceedings or disputes in the ordinary course of business that are common for our industry, including employment disputes and contract disputes with our suppliers, service providers or customers. During the Track Record Period, our Group was involved in approximately six such legal proceedings, all of which have already been settled. We are also subject to regular investigation by the relevant government regulatory bodies in relation to our licences as well as accounting and auditing matters. As at the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business, financial condition or results of operations.

#### Litigations in relation to Taclon

As at the Latest Practicable Date, Taclon, one of our subsidiaries, was involved in a potential litigation in which the claim amounted to approximately HK\$10.3 million (the “**Alleged Debt**”).



## BUSINESS

It is our Directors' understanding that, the previous shareholders of Taclon (the "**Vendor**") owed a debt (the "**Personal Debt**"), the amount of which is equivalent to the Alleged Debt, to his creditor (the "**Vendor's Creditor**"). Our Controlling Shareholders, Mr. PS Tse and Dr. Szeto (through HFT Industrial) acquired Taclon in April 2012. Prior to that, the Vendor had spent the full amount of the Personal Debt for the operation of Taclon, as a result of which, Taclon owed the Vendor an amount of approximately HK\$10.3 million. Upon the Taclon Acquisition in April 2012, the amount owed by Taclon to the Vendor was assigned in full to HFT Industrial as the purchaser of Taclon, subsequent to which the Vendor's Creditor served a demand notice on Taclon for the repayment of the Alleged Debt. We have notified the Vendor of such demand, and have issued a reply letter to the legal representatives of the Vendor's Creditor stating our denial against the liability to repay the Alleged Debt.

We understand that in May 2012, the Vendor's Creditor entered into a deed of assignment with the claimant in relation to the Alleged Debt, through which the claimant acquired all of the beneficial interest in the Alleged Debt. The claimant subsequently served a repayment demand notice to Taclon in January 2013. We have replied and denied the existence of any such liability.

On 26 March 2014, we acquired Taclon for the purpose of consolidating and gaining control over the production assets of our business operation.

Our Directors maintain the view that Taclon did not and does not owe the claimant the Alleged Debt and will vigorously defend Taclon's position in the legal proceedings.

In any event, (i) the Vendor shall indemnify and keep indemnified HFT Industrial against any cost, loss or damages arising from the litigation (if any) under the relevant sale and purchase agreement, and (ii) if the Vendor fails to indemnify and keep indemnified Taclon against any cost, loss or damages arising from the relevant litigation, our Controlling Shareholders shall indemnify our Group pursuant to the Deed of Indemnity. Further, on the date of the acquisition, HFT Industrial has undertaken to indemnify Taclon against any cost, loss or damages arising from the litigation (if any) in relation to any amount owed by Taclon to the Vendor as set out in the sales and purchase agreement.

From time to time Taclon has been, and may in the future be occasionally, involved in legal proceedings or disputes, including employment disputes and contract disputes, in addition to the material litigation as set out above, which are not expected to have a material adverse effect on our business, results of operations and financial condition.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### OVERVIEW

Upon the Listing, each of Ms. Wong, Mr. PT Tse, Mr. Kwan, Think Expert, YITAO and Prestigious Time will be a Controlling Shareholder of our Company under the Listing Rules. The table below sets out information regarding their shareholding interest immediately following the completion of the Global Offering and the Capitalisation Issue:

	<b>Number of Shares owned</b>	<b>Approximate percentage of shareholding interest</b>
Think Expert ( <i>Note 1</i> )	393,846,600	62.3%
YITAO ( <i>Note 2</i> )	393,846,600	62.3%
Prestigious Time ( <i>Note 3</i> )	393,846,600	62.3%

*Notes:*

- (1) Think Expert is wholly-owned by Ms. Wong.
- (2) YITAO is wholly-owned by Mr. PT Tse.
- (3) Prestigious Time is wholly-owned by Mr. Kwan.

### Acting in Concert Confirmation

Over the course of our business history, each of Ms. Wong, Mr. PT Tse and Mr. Kwan has, in exercising and implementing the management and operation of each of our subsidiaries (except for Taclon which was acquired by HFT Industrial, a company owned by Mr. PT Tse, Ms. Wong, Mr. Kwan, Mr. PS Tse and Dr. Szeto, from Independent Third Parties on 27 April 2012, and acquired by HFT BVI of our Group from HFT Industrial through the Taclon Acquisition on 26 March 2014), been acting in concert with one another. Because we were a group of private entities in the past, these arrangements were not formalised in writing and each of Ms. Wong, Mr. PT Tse and Mr. Kwan was content with these arrangements based on their close and long-term business and personal relationships, as well as the trust and confidence they have in each other. Ms. Wong, Mr. PT Tse and Mr. Kwan have confirmed that the acting in concert arrangements with respect to each Relevant Subsidiary became effective upon any Controlling Shareholder(s) becoming the registered shareholder of such Relevant Subsidiary.

On 27 March 2014, in preparation for the Listing, Ms. Wong, Mr. PT Tse and Mr. Kwan executed the Acting in Concert Confirmation, whereby they confirmed the existence of their acting in concert arrangements in the past, as well as their intention to continue to act in the above manner upon the Listing to consolidate their control over our Group until the Acting in Concert Confirmation is terminated by them in writing. The Acting in Concert Confirmation covers our Company and the Relevant Subsidiaries.

Pursuant to the Acting in Concert Confirmation, with respect to the businesses of the Relevant Subsidiaries (which exclude Taclon), Ms. Wong, Mr. PT Tse and Mr. Kwan confirm to each other that, for the entire duration when all of them were/are contemporaneously the owners of shares of the Relevant Subsidiaries and, after the incorporation of our Company, our Company:

- (a) they have agreed to, and shall continue to, consult each other and reach an unanimous consensus among themselves on matters which are the subject of any shareholders' resolution prior to putting forward any such resolution to be passed at any shareholders' meeting of our Company and the Relevant Subsidiaries (as the case may be) and have historically voted on such resolutions in the same way; and

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) they have centralised, and shall continue to centralise, the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of our Group.

Hence, pursuant to the Acting in Concert Confirmation, the Controlling Shareholders will together be entitled to exercise and control approximately 62.3% of our entire issued share capital immediately upon the completion of the Global Offering and the Capitalisation Issue.

### RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

#### Delineation of our business from the business of Aqua Pure

Aqua Pure is a company incorporated in Hong Kong on 4 January 1991 and wholly-owned by a holding company which is owned as to 42.75%, 23.75%, 19%, 9.5% and 5%, respectively by Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse and Dr. Szeto. Aqua Pure is engaged in the wholesale business of bottled distilled water under the trade name of “Aqua Pure” to wholesalers, retailers and distributors. As opposed to our Group, Aqua Pure does not operate any retail outlets to sell their products. As our business is focused on the production and sales of Chinese wellness drinks, soups and herbal jelly under the brand “鴻福堂 (Hung Fook Tong)” and is not engaged in the sales of any bottled water or distilled water products, our Directors consider that the business of Aqua Pure does not and will not compete with our business. As a measure to avoid any potential conflict of interest arising out of any transaction to be entered into between us and Aqua Pure, interested Directors shall abstain from voting at the relevant board meeting of our Company in respect of such transactions and shall not be counted in the quorum of such meetings. Please see the paragraphs “Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Independence of management and directorship”, “Deed of Non-competition” and “Corporate Governance Measures” below in this section for the measures adopted by us to manage any potential conflict of interest between our Group and Aqua Pure.

Prior to the Taclon Acquisition, Taclon received management fee from Aqua Pure and the related companies of Aqua Pure for recharging expenses incurred in relation to the water production business of Aqua Pure. This arrangement has been discontinued.

Taclon has entered into an agreement with Aqua Pure on 24 March 2014 agreeing that Taclon will provide services in relation to the production of bottled water to Aqua Pure, key terms of which are set out below, which is expected to continue after the Listing as a de minimis connected transaction exempt from reporting, announcement and independent shareholders approval requirements under Rule 14A.33(3) of the Listing Rules.

Set out below are the key terms of the service agreement entered into between Taclon and Aqua Pure:

- Service: Taclon agreed to provide to Aqua Pure services in relation to the production (the “**Production Services**”) of bottled water.
- Fees: Fees to be charged by Taclon (“**Fees**”) for the Production Services shall be determined on normal commercial terms and on an arm’s length basis, and unless otherwise agreed by both parties in writing, be calculated at HK\$2 per bottled water (5 Gal carboy) and HK\$0.2 per bottled water (700 mL).
- Annual cap: The maximum aggregate annual amount of the Fees for each financial year shall not exceed HK\$1.0 million, unless otherwise agreed.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Term: The agreement was effective from 24 March 2014 until terminated by either party by giving notice in writing to the other party.

None of our Directors is currently involved in the daily management and operation of Aqua Pure.

According to the best knowledge of our Company, save for the production of bottled water for Aqua as disclosed in the paragraph “Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Connected transactions between our Group and entities controlled by our Controlling Shareholders” below in this section, our Group has no current intention to operate any other business regarding bottled water.

Based on the clear difference in the focus of business between our Group and Aqua Pure, our Directors consider that the business of Aqua Pure does not compete, and is not likely to compete, either directly or indirectly, with our business.

### **No competition**

Our Directors confirm that, as at the Latest Practicable Date, none of our Controlling Shareholders or any of their respective associates had interests in any business, other than our business, which competes, may compete, or is likely to compete, either directly or indirectly, with our business.

Save as set out above, the principal business venture of Ms. Wong, Mr. PT Tse and Mr. Kwan is conducted through our Group. Think Expert, YITAO, Prestigious Time and Aolong are investment holding companies held by Ms. Wong, Mr. PT Tse, Mr. Kwan and Dr. Szeto respectively, and their principal business asset is their shareholding in our Company.

Our Company was incorporated in the Cayman Islands on 10 January 2014 as part of our Reorganisation, details of which are set out in the section “History and Development — Our Reorganisation” in this prospectus. Pursuant to our Reorganisation, save as set out above, all businesses conducted by our Controlling Shareholders relating, or incidental to the operation of food and beverage business were transferred to our Company.

### **Independence from our Controlling Shareholders**

Our Directors are satisfied that our Group can function, operate and carry on our business independently from our Controlling Shareholders (and their associates) based on the following reasons:

#### ***Independence of management and directorship***

Our Company has a Board and members of senior management that function independently from our Controlling Shareholders and their respective associates. Our Board is comprised of four executive Directors, one non-executive Director and three independent non-executive Directors. Our senior management consists of eight members. Based on the following reasons, we believe that our Directors and members of our senior management are able to manage our business independently from our Controlling Shareholders:

- (i) with three independent non-executive Directors out of a total of eight Directors on our Board, which exceeds the requirements under the Listing Rules, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and protect the interests of our independent Shareholders;

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) all members of our senior management are full-time employees of our Group and most have, for the entire or substantially the entire Track Record Period, undertaken senior management supervisory responsibilities in our business. The responsibilities of our senior management team include managing operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategies of our Group. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholders;
- (iii) instances of actual or potential conflict have been identified and minimised (by virtue of the Deed of Non-Competition);
- (iv) each of our Directors is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he acts for the benefit and in the best interests of our Shareholders as a whole and does not allow any conflict between his duties as a Director and his personal interests to affect the performance of his duties as a Director;
- (v) any connected transactions between our Company and companies controlled by our Controlling Shareholders are subject to the rules and regulations under the Listing Rules including rules relating to announcement, reporting and independent Shareholders' approval (where applicable);
- (vi) except for the business of Aqua Pure, as set forth in the paragraph "Delineation of our business from the business of Aqua Pure" in this section, all of the businesses that are directly related to or incidental to the operation of food and beverage business held by our Controlling Shareholders have been consolidated into our Group as part of our Reorganisation. Therefore, there is no competition that would adversely affect the management independence of our Group; and
- (vii) a number of corporate governance measures are in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders, and to safeguard the interests of our independent Shareholders. Please see the paragraph "Corporate Governance Measures" below in this section.

### ***Operational independence***

Our Company makes business decisions independently. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholders and other companies controlled by our Controlling Shareholders:

- (i) our Company is not reliant on trademarks owned by our Controlling Shareholders, or other companies controlled by our Controlling Shareholders;
- (ii) our Group is the holder of all relevant licences material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;
- (iii) our Company has its own administrative and corporate governance infrastructure (including its own accounting, legal and human resources departments);
- (iv) except for our office premises in Hong Kong which is leased from an entity controlled by our Controlling Shareholders, set out in the paragraph "Connected transactions between our Group and entities controlled by our Controlling Shareholders" below in

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

this section, which will constitute a de minimis connected transaction exempt from reporting, announcement and independent shareholders approval requirements under Rule 14A.33(3) of the Listing Rules (a “**De Minimis Connected Transaction**”), all of the properties used as our principal place of business, office premises and shops are leased from Independent Third Parties by our Company or our subsidiaries;

- (v) except for the logistics services for the delivery of our finished products from our storage spaces to our customers which are provided by AP Logistics, a company controlled by our Controlling Shareholders, which will constitute a De Minimis Connected Transaction, set out in the paragraph “Connected transactions between our Group and entities controlled by our Controlling Shareholders” below in this section, all external services required by our Company or our subsidiaries are provided by Independent Third Parties;
- (vi) our Company has established a set of internal control procedures to facilitate the effective operation of our business; and
- (vii) our Company does not rely on our Controlling Shareholders for access to suppliers and customers. In particular, we independently manage our sourcing for raw materials and equipment. Our customers are predominantly members of the public, to whom we have independent access.

Based on the above-mentioned arrangements, our Directors are of the view that our Company will be able to operate independently from our Controlling Shareholders.

### ***Connected transactions between our Group and entities controlled by our Controlling Shareholders***

During the Track Record Period, certain entities controlled by our Controlling Shareholders entered into related party transactions with our Group in the ordinary course of our business and on normal commercial terms. Such related party transactions are disclosed in Note 27 to the Accountant’s Report of our Group set out as Appendix IA to this prospectus. Such transactions, if continued upon the Listing, will constitute continuing connected transactions of our Company under the Listing Rules.

Our Directors confirm that, all related party transactions (other than De Minimis Connected Transactions set out in this paragraph) with our Controlling Shareholders will be discontinued upon the Listing.

As at the Latest Practicable Date, we leased one office premise from a company owned as to 60% and 40% by Ms. Wong and Mr. PT Tse, respectively, each a Controlling Shareholder. The property subject to this transaction was not included in our Group in order to allow our Group to focus on our core business and present a streamlined corporate profile to our Shareholders and potential investors. Our current business strategy involves carrying on our operations (except for our production facility) on leased properties only, which gives us the flexibility to select suitable property and location in accordance with prevailing market conditions.

With the exception of the occasional logistics services for the delivery of certain of products from our storage spaces to our customers provided by AP Logistics, a company controlled by our Controlling Shareholders, which will constitute a De Minimis Transaction, all external services required by our Company or our subsidiaries will be provided by Independent Third Parties.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As set out in the paragraph “Relationship with our Controlling Shareholders — Delineation of our business from the business of Aqua Pure” above, Taclon will provide certain services in relation to the production of bottled water of Aqua Pure, which will constitute a De Minimis Connected Transaction.

These related party or connected transactions between our Group and entities controlled by our Controlling Shareholders are not material in value as far as our Group is concerned. On an aggregated annual basis, the amounts paid or payable by our Group to such entities in 2013 did not exceed 5% of our revenue.

### ***Financial independence***

Our Directors are of the view that we will be financially independent of our Controlling Shareholders and any of their respective associates upon the Listing for the following reasons:

- (i) ***Strong financial positions:*** We have been financially sound throughout the Track Record Period. For 2011, 2012 and 2013, our revenue was HK\$479.3 million, HK\$578.7 million and HK\$645.0 million, respectively, and our profit for the respective years attributable to owners of our Company were HK\$7.0 million, HK\$36.0 million and HK\$34.5 million, respectively. As at 31 December 2013, we had cash and bank balances of HK\$95.8 million (including restricted cash). Our net cash flow from operating activities in 2013 was HK\$58.9 million.
- (ii) ***Strong credit position:*** Besides having a strong financial position and cash generating operation as mentioned above, based on discussions with relevant lending banks, our Directors confirm that our Group also has a strong credit position on a stand-alone basis.
- (iii) ***A track record of obtaining bank loans on a stand-alone basis:*** Our Group has been able to, and believes that it will continue to be able to, secure loans from banks and other financial institutions without any credit support or guarantees from our Controlling Shareholders. We are confident that after the Listing, we will be able to obtain credit facilities from financial institutions on a stand-alone basis. As such, our Group is satisfied of its capability in carrying on our business in a manner that is financially independent of our Controlling Shareholders.

All the non-trade amounts due to and from our Controlling Shareholders and companies controlled by our Controlling Shareholders, as well as all guarantees, indemnities and other securities provided by us for the benefit of our Controlling Shareholders, and companies controlled by our Controlling Shareholders, or vice versa, will be fully settled or released on or before the Listing Date, subject to which there will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders in favour of our Group or vice versa upon the Listing.

Because we were a group of private entities in the past, we have incurred certain amounts due to and from our Directors during the Track Record Period. These amounts were the results of drawings and advance payments made by our Directors. We have settled these amounts before the Listing.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### DEED OF NON-COMPETITION

For the purpose of the Listing, our Controlling Shareholders have entered into the Deed of Non-Competition with our Company, pursuant to which each of the Controlling Shareholders has unconditionally and irrevocably undertaken to our Company (for itself and for the benefits of members of our Group) that it/he/she would not, and would procure that its/his/her associates (other than any members of our Group) would not, directly or indirectly, either on its/his/her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise) any activity or business which is or may be in competition, directly or indirectly, with the business carried on or contemplated to be carried on by any member of our Group from time to time (“**Restricted Activity**”).

Further, each of our Controlling Shareholders has unconditionally and irrevocably undertaken to our Company that in the event that it/he/she or its/his/her associate(s) is given/identifies any opportunities which directly or indirectly competes, or may lead to competition with the Restricted Activity, it/he/she will and will procure it/his/her associate(s) to, as soon as practicable inform our Company of such opportunity in writing and provide such information as is available to it/him/her in respect of such opportunity to our Company upon becoming aware of it.

Each of our Controlling Shareholders has represented and warranted that, as of the date of the Deed of Non-Competition, neither it/he/she nor any of its/his/her associates was interested, involved or engaged, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Activity otherwise than through our Group or was otherwise engaged in any business which is in competition or potential competition to those of our Group.

Each of the Controlling Shareholders has also undertaken to our Company the following:

- (a) to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors of its/his/her compliance with the terms of the Deed of Non-Competition and the enforcement of the Deed of Non-Competition;
- (b) to procure our Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of its/his/her non-competition undertakings under the Deed of Non-Competition either through our annual report, or by way of announcements to the public; and
- (c) to make an annual declaration on compliance with his/her/its undertaking under the Deed of Non-Competition in the annual reports of our Company as the independent non-executive Directors think fit and ensure that the disclosure of details of its/his/her compliance with and the enforcement of the non-competition undertakings under the Deed of Non-Competition is consistent with the relevant requirements under the Listing Rules.

The Deed of Non-Competition does not apply to:

- (a) the holding of or interests in the shares of any member of our Group; or
- (b) any activity and business carried on by HFT Industrial and its subsidiaries (including Aqua Pure) as at the date of the Deed of Non-Competition; or



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (c) the holding of or interests in shares or other securities in any company other than our Group which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a recognised stock exchange and either:
  - (i) the relevant Restricted Activity (and assets relating thereto) accounts for less than 10% of that relevant company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
  - (ii) the total number of the shares held by our Controlling Shareholders and/or their respective associates or in which they are together interested does not amount to more than 5% of the issued shares of that class of the company in question, provided that our Controlling Shareholders and/or their respective associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company or otherwise participate in or be involved in the management of that company and that at all times there should exist at least another shareholder of that company (together, where appropriate, with its associates) whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and/or their respective associates together hold.

The obligation of our Controlling Shareholders under the Deed of Non-Competition will cease to have any effect whatsoever on:

- (a) the date on which our Shares cease to be listed on the Stock Exchange; or
- (b) in respect of a Controlling Shareholder, the date on which that Controlling Shareholder and/or its/his/her associates, collectively and individually, ceases to hold an equity interest in our Company; or
- (c) in respect of a Controlling Shareholder, the date on which that Controlling Shareholder and/or its/his/her associates, jointly and severally, ceases to be entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company,

whichever occurs first.

## CORPORATE GOVERNANCE MEASURES

Upon the Listing, our Company will continue to enter into connected transactions with certain companies controlled by our Controlling Shareholders. Each of our Controlling Shareholders has undertaken to our Company under the Deed of Non-Competition that he/she/it shall not, and shall procure that his/her/its associates (other than members of our Group) shall not, own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes, or may compete, with our business. Our Company will further adopt the following measures to manage the conflict of interest arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

- (i) in preparation for the Listing, our Company has amended our Articles to comply with the Listing Rules. In particular, our Articles provide that, except for certain exceptions permitted under the Listing Rules or the Stock Exchange, a Director shall not vote on any board resolution approving any contract in relation to which he has a material interest, nor shall such Director be counted in the quorum present at the meeting. Furthermore, a Director who holds directorship and/or senior management positions in Think Expert, YITAO or Prestigious Time or any of their respective associates (other than our Company or any member of our Group) shall not vote on any board resolution regarding any

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

transactions proposed to be entered into between any member of our Group and Think Expert, YITAO or Prestigious Time or any of their respective associates (other than our Company or any member of our Group), nor shall such Director be counted in the quorum present at such meeting;

- (ii) we have appointed Crosby Securities Limited as our compliance adviser, which will provide advice and guidance to us with respect to compliance with the applicable laws and the Listing Rules, including but not limited to various requirements relating to Directors' duties and internal controls;
- (iii) our independent non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- (iv) each of our Controlling Shareholders has undertaken to provide all information necessary for the annual review by our independent non-executive Directors of its/his/her compliance with the terms of the Deed of Non-Competition and the enforcement of the Deed of Non-Competition;
- (v) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through our annual report, or by way of announcements to the public;
- (vi) each of our Controlling Shareholders will make an annual declaration of compliance with the Deed of Non-Competition in the annual reports of our Company;
- (vii) the management structure of our Group includes an audit committee, a remuneration committee, and a nomination committee, the terms of reference of each of which will require them to be alert to prospective conflict of interest and to formulate their proposals accordingly; and
- (viii) pursuant to the Corporate Governance Code in Appendix 14 of the Listing Rules, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs.

Our Company is expected to comply with the Corporate Governance Code in Appendix 14 of the Listing Rules which sets out principles of good corporate governance in relation to, among others, Directors, chief executive, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communication with our Shareholders. Our Company will state in our interim and annual reports whether we have complied with such code, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

## DIRECTORS AND SENIOR MANAGEMENT

### OVERVIEW

The table below contains certain information about each of our Directors and senior management.

Name	Age	Current Position in our Group	Date of joining our Group	Date of Appointment as Director or senior manager <sup>(3)</sup>	Responsibilities in our Group
Mr. Tse Po Tat <sup>(1)</sup>	60	Chairman and Executive Director	30 November 1988	10 March 2014	Overall direction; setting our business strategy; corporate communication
Mr. Kwan Wang Yung	60	Managing Director and Executive Director	30 November 1988	10 March 2014	Overall management; setting and implementing our business strategy; production; quality control; and accounting and finance
Dr. Szeto Wing Fu	52	General Manager and Executive Director	25 October 1999	10 March 2014	Setting and implementing our business strategy; sales and marketing; human resources; and financial management and administration
Ms. Wong Pui Chu <sup>(2)</sup>	54	Executive Director	8 March 1989	10 March 2014	Retail business development; product development; and market research
Mr. Tse Po Shing <sup>(1)</sup>	57	Non-executive Director	1 October 1991	10 March 2014	Fresh Products production technology
Mr. Kiu Wai Ming	65	Independent Non-executive Director	11 June 2014	11 June 2014	Supervising the management of our Company
Professor Sin Yat Ming	58	Independent Non-executive Director	11 June 2014	11 June 2014	Supervising the management of our Company
Mr. Andrew Look	49	Independent Non-executive Director	11 June 2014	11 June 2014	Supervising the management of our Company
Ms. Tull Shuk Ching	52	Assistant General Manager	15 December 1998	1 January 2013	Retail shops business development, operation and staff training
Ms. Poon Chi Nga	44	Assistant General Manager	23 August 2004	1 January 2013	Long Shelf-life Drinks business development, and sales and marketing of Long Shelf-life Drinks
Mr. Tsang Kai Ming	51	Financial Contoller	13 September 2010	1 November 2010	Finance and accounting, treasury and internal auditing
		Company Secretary	13 September 2010	10 March 2014	Company secretarial duties
Mr. Lee Bang Lau	55	Senior Manager	26 October 2005	10 March 2014	Management of PRC production facilities
Ms. Chou Siu Wai, Vivian	37	Senior Manager	20 December 2010	10 March 2014	Marketing; advertising; visual merchandising; and new product development

## DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Current Position in our Group	Date of joining our Group	Date of Appointment as Director or senior manager <sup>(3)</sup>	Responsibilities in our Group
Mr. Chan Hiu Cheuk <sup>(2)</sup>	35	Senior Manager	22 November 2004	10 March 2014	Product development; logistics, and coordination of the production, logistics, quality assurance, research and development, procurement and maintenance departments
Ms. Tsang Tsz Yee, Sonia	37	Manager	19 March 2007	10 March 2014	Human resource management and development, and administration
Mr. Sun Man Lung	38	Deputy Manager	2 April 2007	10 March 2014	Customer relationship management, and institutional sales

*Notes:*

- (1) Mr. Tse Po Tat is the brother of Mr. Tse Po Shing.
- (2) Ms. Wong Pui Chu is the mother of Mr. Chan Hiu Cheuk.
- (3) The business address of all our senior management is at 12/F., ADP Pentagon Centre, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong.

### DIRECTORS

Our Board currently consists of eight Directors, comprising four executive Directors, one non-executive Director and three independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed at these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

#### Executive Directors

**Mr. TSE Po Tat**, aged 60, is the chairman and an executive Director of our Company. Mr. PT Tse is one of our founders and responsible for our overall direction, business strategy and corporate communication. He has 28 years of experience in commerce and the herbal drinks industry, respectively. After joining our Group in November 1988, he developed our central production facilities and product delivery logistics and managed our procurement of production equipment and the leasing and renovation of retail shops. He is a committee member of the Hong Kong Federation of Restaurants and Related Trades and also of the Federation of Hong Kong Industries. Mr. PT Tse is the brother of Mr. PS Tse.

Mr. PT Tse is currently a Director of 22 of our subsidiaries, including HFT BVI, Taclon, HFT Services, HFT Holdings, HFT (Herbal Tea), HFT (China) Investment, HFT (China) Development, HFT Real Property, HFT Property Leasing, HFT Franchisor Consultancy, HFT Franchise System, HFT International, Gold Work, HFT (Guangzhou) Trading, HFH, HFT (Guangdong), HFT (Shanghai) and Ming Tong (Shanghai).

HFT Holdings is the corporate director of QoL, HFT Trading Co., HFT Management Institute and HK HFT Herbal Tea. Mr. PT Tse holds directorship in these subsidiaries through being a Director of HFT Holdings.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. KWAN Wang Yung**, aged 60, is the managing Director and an executive Director of our Company. Mr. Kwan is one of our founders and oversees overall management, our production and quality control. He is also responsible for setting and implementing our business strategy, and accounting and finance. He has over 28 years of experience in the herbal drink industry. After joining our Group in November 1988, he managed our retail shop operations and developed PET bottle portable packaging Long Shelf-life Drinks and pouch packed Chinese-style soups. He also established our Shenzhen (Guanlan) production facility in 2000.

Mr. Kwan is currently a Director of 24 of our subsidiaries, including HFT BVI, Taclon, HFT Services, HFT Holdings, HFT (Herbal Tea), HFT (China) Investment, HFT (China) Development, HFT Real Property, HFT Property Leasing, HFT Franchisor Consultancy, HFT Franchise System, HFT International, Gold Work, Goldmark, Gaoda (Dongguan), HFT (Guangzhou) Trading, HFH, HFT (Guangdong), HFT (Shanghai) and Ming Tong (Shanghai).

HFT Holdings is the corporate director of QoL, HFT Trading Co., HFT Management Institute and HK HFT Herbal Tea. Mr. Kwan holds directorship in these subsidiaries through being a Director of HFT Holdings.

**Dr. SZETO Wing Fu**, aged 52, is the general manager and an executive Director of our Company. Dr. Szeto is in charge of our sales and marketing, human resources, financial management and administration. He is also responsible for setting and implementing our business strategy. Prior to joining our Group in October 1999, Dr. Szeto was a deputy manager and acting head of the personnel and training department between August 1987 and August 1992 at Ka Wah Bank Ltd. Dr. Szeto is the chairman of Hong Kong Professional and Education Services Ltd. and the Committee on Social Enterprise of the Hong Kong Society for Rehabilitation. He is a member of the Community Investment and Inclusion Fund Committee, Programme Management Committee of the Dedicated Fund on Branding, Upgrading and Domestic Sales — Enterprise Support Programme, and the Executive Committee of the Hong Kong Retail Management Association. Dr. Szeto graduated from Hong Kong Shue Yan College in July 1984 with a diploma in economics. He obtained a Doctor of Business Administration from Bucalan State University in November 2006 and a Master of Business Administration from Northeast Louisiana University in December 1986. He also obtained a Doctor of Philosophy in education administration from the University of Southern Mississippi in May 1995, and an Education Specialist degree and Master of Education from Northeast Louisiana University in May 1987 and August 1985, respectively.

Dr. Szeto is currently a Director of 12 of our subsidiaries, including HFT BVI, Taclon, HFT Holdings, HFT Herbal Tea Holdings, HFT (Guangzhou) Trading, HFT (Guangdong), HFT (Shanghai) and Ming Tong (Shanghai).

HFT Holdings is the corporate director of QoL, HFT Trading Co., HFT Management Institute and HK HFT Herbal Tea. Dr. Szeto holds directorship in these subsidiaries through being a Director of HFT Holdings.

**Ms. WONG Pui Chu**, aged 54, is an executive Director of our Company. Ms. Wong is one of our founders and responsible for our market research, retail business development and product development. She has over 28 years of experience in the herbal drinks industry. After joining our Group in March 1989, she developed our POS system and employee incentives programme and managed our leasing and retail shop operations, then she managed our administration, human resources, staff training, financial management and investment strategy. Ms. Wong is the daughter of the late Mr. Wong Jing Fat and the mother of Mr. Chan Hiu Cheuk, a member of our senior management.

## DIRECTORS AND SENIOR MANAGEMENT

Ms. Wong is currently a Director of 21 of our subsidiaries, including HFT BVI, Taclon, HFT Services, HFT Holdings, HFT (Herbal Tea), HFT (China) Investment, HFT (China) Development, HFT Real Property, HFT Property Leasing, HFT Franchisor Consultancy, HFT Franchise System, HFT International, Gold Work, HFT (Guangzhou) Trading, HFH, HFT (Shanghai) and Ming Tong (Shanghai).

HFT Holdings is the corporate director of QoL, HFT Trading Co., HFT Management Institute and HK HFT Herbal Tea. Miss Wong holds directorship in these subsidiaries through being a Director of HFT Holdings.

### Non-executive Director

**Mr. TSE Po Shing**, aged 57, is a non-executive Director of our Company. Mr. PS Tse was first appointed a Director in December 1991 and has been a technical consultant for production of our Fresh Products since 2008. He has over 23 years of experience in the herbal drinks industry. Between 1991 and 2008, he was responsible for overall management of our retail shop operations, including shop opening and day-to-day operation, and our central production facilities, including those related to Fresh Products.

Mr. PS Tse is currently a Director of 14 of our subsidiaries, including HFT BVI, HFT Holdings, HFT (Herbal Tea), HFT (China) Investment, HFT (China) Development, HFT Real Property, HFT Property Leasing, HFT Franchisor Consultancy, HFT Franchise System and HFH.

HFT Holdings is the corporate director of QoL, HFT Trading Co., HFT Management Institute and HK HFT Herbal Tea. Mr. PS Tse holds directorship in these subsidiaries through being a Director of HFT Holdings.

### Independent Non-executive Directors

**Mr. KIU Wai Ming**, aged 65, was appointed as an independent non-executive Director on 11 June 2014. Mr. Kiu has extensive experience in retail, banking and finance. He served as an executive director and the chief executive officer of Rising Development Holdings Ltd., a company listed on the Stock Exchange (stock code: 1004), from October 2002 to September 2003. He was a director, deputy general manager and alternate chief executive of Industrial and Commercial Bank of China (Asia) from July 1999 to September 2002. He was a director of Dah Sing Financial Holdings Ltd., a company listed on the Stock Exchange (stock code: 440), from January 1993 to June 1999. He was also a director and alternate chief executive of Dah Sing Bank, Limited from August 1989 to December 1997. Mr. Kiu obtained a Bachelor of Science from Louisiana State University and Agricultural and Mechanical College in December 1972.

Mr. Kiu is currently an executive director and chief executive officer of Walker Group Holdings Limited, a company listed on the Stock Exchange (stock code: 1386), an independent non-executive director of Man Sang International Limited, a company listed on the Stock Exchange (stock code: 938), and an independent non-executive director of CCB International (Holdings) Limited, an investment bank wholly-owned by China Construction Bank Corporation.

**Professor SIN Yat Ming**, aged 58, was appointed as an independent non-executive Director on 11 June 2014. Professor Sin has been a member of The Chinese University of Hong Kong Business Faculty (“CUHK”) for over 30 years. He is currently a professor of CUHK, a director of CUHK’s Master of Science Part-time Programme in Marketing and an associate director of CUHK’s Center for Hospitality and Real Estate Research. He is an advisor to the Hong Kong Institute of Marketing. Professor Sin obtained a Doctor of Philosophy in business administration from the University of British Columbia in May 1993, Master of Business Administration from the University of Texas at Arlington in May 1982 and a Bachelor of Business Administration from CUHK in December 1979.

## DIRECTORS AND SENIOR MANAGEMENT

Professor Sin is currently an independent non-executive director of Bossini International Holdings Ltd., a company listed on the Stock Exchange (stock code: 592).

**Mr. LOOK Andrew**, aged 49, was appointed an independent non-executive Director on 11 June 2014. Mr. Look has over 20 years of experience in equity investment analysis of Hong Kong and China stock markets. He served as managing director and head of Hong Kong research, strategy and product at UBS AG from June 2000 to August 2008. He was an investment manager at Prudential Portfolio Managers (Asia) Limited from late 1994 to early 2000. He was responsible for corporate finance from August 1990 to late 1994 as an investment manager at Lai Sun Development Company Limited, a company listed on the Stock Exchange (stock code: 488). He was an investment officer at Hang Seng Bank Limited, a company listed on the Stock Exchange (stock code: 11), from August 1986 to June 1990. Mr. Look founded Look's Asset Management Limited, a SFC licensed corporation based in Hong Kong, in September 2009, and currently serves as its chief investment officer and managing director. He obtained a Bachelor of Commerce from the University of Toronto in June 1986.

Mr. Look is currently an independent non-executive director of Ka Shui International Holdings Limited, a company listed on the Stock Exchange (stock code: 822), and TCL Communication Technology Holdings Limited, a company listed on the Stock Exchange (stock code: 2618).

### General

Save as disclosed in this prospectus, (i) our Directors have not held any directorships in any listed companies in the last three years; (ii) there is no other matter with respect to our Directors that needs to be brought to the attention of our Shareholders; and (iii) there is no information relating to our Directors that is required to be discussed pursuant to Rule 13.51(2) of the Listing Rules.

### SENIOR MANAGEMENT

Our senior management members are responsible for the day-to-day management of our Company's business. None of the members of our senior management has been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

**Ms. Tull Shuk Ching**, aged 52, is an assistant general manager of our retail division and is responsible for the division's business development, operations and staff training. Prior to joining our Group in December 1998, she had around 3 years of experience in business operations and administration. Ms. Tull was an administration manager at Sinorich Holdings Ltd. from July 1997 to November 1998, and an operation manager at Gialletti Gelato and Foods (China) Ltd. and Wellco Enterprises Ltd. from October 1995 to March 1997 and October 1993 to October 1995, respectively. Ms. Tull obtained a Bachelor of Law from Peking University in July 2001 through a part-time programme jointly run by Peking University and Hong Kong Shue Yan College and a Bachelor of Arts from the National Cheungchi University in June 1983. She obtained a postgraduate certificate in business administration from the Hong Kong Open University in June 2003 by distance-learning and passed the 5-S lead auditor training course held by Hong Kong Baptist University Business Research Centre and Hong Kong 5-S Association in November 2000. She has obtained various qualifications in Chinese medicine through evening courses, including a certificate in the foundations of acupuncture, advanced diploma in the foundations of Chinese medicine and diploma in Chinese medicine for beauty studies from the Hong Kong University School of Professional and Continuing Education in August 2013, November 2012 and November 2008, respectively, and a certificate in dispensing (practicum) in Chinese medicine and foundation certificate in Chinese medicine from Hong Kong Baptist University in September 2011 and August 2005, respectively.

**Ms. Poon Chi Nga**, aged 44, is an assistant general manager of our Long Shelf-life Drinks division and responsible for the division's business development, and sales and marketing. She has over 22 years of experience in the food and beverage industry. Prior to joining our Group in August

## DIRECTORS AND SENIOR MANAGEMENT

2004, she was a business development manager at RBT International Limited from June 2003 to May 2004; a category manager at Lam Soon Food Supply Co. Ltd. from August 2001 to December 2002; a category manager and product manager at Swamex Food Service Ltd. between May 2000 and August 2001; an operations and administrations manager at Lucullus Food and Wines Co. Ltd. from May 1999 to January 2000; administration manager of FPD Eurest Catering Services from March 1998 to April 1999; a personnel administration manager at FPD Catering Services Limited from January 1997 to October 1997, and an administration officer and shop manager at DéliFrance (HK) Ltd. between September 1992 and July 1996. Ms. Poon obtained a Master of Business Administration from the University of Leicester in January 2005 by distance-learning and a higher diploma in hotel and catering management from Hong Kong Polytechnic University in October 1992.

**Mr. Tsang Kai Ming**, aged 51, is the financial controller and company secretary of our Group and is responsible for finance and accounting, treasury, internal auditing and company secretarial duties. He has over 20 years of experience in finance and accounting, and auditing. Prior to joining our Group in September 2010, he was group internal audit manager at Popular Holdings Limited, a company listed on the Singapore Exchange (stock code: P29), from October 2008 to January 2010. He was a senior internal audit and compliance manager at Print-Rite Management Company Limited from November 2007 to October 2008. He was an internal audit manager at Hung Hing Printing Group Limited, a company listed on the Stock Exchange (stock code: 450), from July 2000 to November 2007. He was an internal audit manager, assistant audit manager and internal auditor at Vitasoy International Holdings Limited, a company listed on the Stock Exchange (stock code: 345), between January 1991 and January 1996. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountant. Mr. Tsang obtained a Master of Management from the University of Western Sydney in October 1998, a Bachelor of Commerce from the University of Southern Queensland in April 1999 through a part-time programme and a postgraduate diploma in management studies from City University of Hong Kong in December 1994 through a part-time programme.

**Mr. Lee Bang Lau**, aged 55, is a senior manager of our Group and is responsible for management of PRC production facilities. Prior to his current position within our Group, he had worked in our logistics, plant production and procurement departments. He has over 25 years of experience in factory management in China. Prior to joining our Group in October 2005, he worked as a production manager at Top Express Telecommunication (China) Ltd. from May 2001 to 2004; a factory manager and management representative at Yaodong Plastic and Metal Product Co. Ltd.; a production manager at Newtech Computer (HK) Ltd. from February 1994 to 1997; a production manager and production supervisor at Wincotime Co. Ltd. between 1990 and 1994, and a production supervisor at Shenzhen Shajing Practical Hardware Factory\* from 1987 to 1990.

**Ms. Chou Siu Wai, Vivian**, aged 37, is a senior manager of our Group and responsible for marketing, advertising, visual merchandising and corporate public relations. Ms. Chou has over 10 years of experience in fast-moving consumer goods marketing. Prior to joining our Group in December 2010, she was a product manager and senior product manager at Amoy Food Limited between January 2007 and October 2010. She was a senior marketing executive and assistant product manager at Campbell Soup Asia Limited between March 2004 and December 2006, and a marketing executive at Swire Coca-Cola HK Limited from May 2002 to March 2004. Ms. Chou obtained a Master of Science in managerial leadership from Edinburgh Napier University in March 2012 by part-time, distance-learning, a Bachelor of Arts in language information science from City University of Hong Kong in November 1999 and a certification of project management from the International Association of Project and Programme Management in March 2008.

**Mr. Chan Hiu Cheuk**, aged 34, is a senior manager of our Group and responsible for its management as well as coordination of the production, logistics, quality assurance, research and development, procurement and maintenance departments. Mr. Chan has over 10 years of experience in the herbal drinks industry. He was a manager in our project development department between



## DIRECTORS AND SENIOR MANAGEMENT

October 2008 and May 2011; an assistant manager in our chain operation division between September 2007 and October 2008, and a senior officer in our information system technology department between April 2006 and September 2007. Mr. Chan obtained a Bachelor of Information and Communication Technology in computer science from the University of Wollongong in July 2003. Mr. Chan is the son of Ms. Wong Pui Chu, an executive Director of our Company.

**Ms. Tsang Tsz Yee, Sonia**, aged 37, is a manager of our Group and responsible for human resource management and development. She also undertakes administration and customer service. Ms. Tsang has over 16 years of experience in human resource management and development. Prior to joining our Group in March 2007, she was a human resources and training officer at Lawsgroup from November 2005 to July 2006. She was an assistant officer and officer II in the Training and Development Department of Christian Action between November 2002 and August 2005 and a counsellor of Hong Kong Church of Christ Co. Ltd. from September 1998 to August 2002. She has been a fully qualified and accredited administrator of the Myers-Briggs Type Indicator suite of instruments since January 2010. Ms. Tsang obtained a Bachelor of Business in management from RMIT University in June 2009 through a part-time programme and a Higher Diploma in manufacturing engineering from Hong Kong Technical College in June 1998.

**Mr. Sun Man Lung**, aged 38, is the deputy manager of our Group and responsible for customer relationship management and institutional sales. Mr. Sun has over 17 years of experience in the marketing of fast-moving consumer goods and health products, and customer relationship management. Prior to joining our Group in April 2007, he worked as an assistant customer relationship manager at Healthy International Limited from March 2006 to February 2007. He worked as a marketing supervisor at Maxion International Group Limited and Open Fortune Community from April 2005 to February 2006 and October 2003 to February 2005, respectively, and as a sales executive at Longain Watches Manufacturing Ltd. and Ceba Precision Co., Ltd. from June 2000 to September 2003 and September 1996 to June 2000, respectively. Mr. Sun obtained a professional diploma in marketing from The Chinese University of Hong Kong in March 2004 and a certificate in customer relationship management from Hong Kong Baptist University's School of Continuing Education in December 2012, both through a part-time programme.

### General

None of our senior management members has held any directorships in any listed companies in the last three years.

### COMPANY SECRETARY

Pursuant to Rule 3.28 and Rule 8.17 of the Listing Rules, the secretary of our Company must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The Stock Exchange considers (a) an ordinary member of The Hong Kong Institute of Company Secretaries, (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong) or (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) as acceptable academic or professional qualifications.

We have appointed Mr. Tsang Kai Ming as company secretary since 10 March 2014. Please see the paragraph "Senior Management" in this section above for his biographical details.

## DIRECTORS AND SENIOR MANAGEMENT

### BOARD COMMITTEES

#### Audit committee

Our Company established an audit committee on 11 June 2014 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules pursuant to a resolution of our Directors passed on 11 June 2014. The primary duties of our audit committee are to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of our Company. At present, our audit committee comprises Mr. Kiu Wai Ming, Professor Sin Yat Ming and Mr. Andrew Look. Mr. Andrew Look is the chairman of the audit committee.

#### Remuneration committee

Our Company established a remuneration committee on 11 June 2014 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B1 of the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules. The functions of this committee include the formulation and the recommendation to the Board on our Company's policies and structures for the remuneration of all of our Directors and senior management of our Company, the establishment of a formal and transparent procedure for developing policy on remuneration, the determination of specific remuneration packages of all executive Directors and senior management in the manner specified in the terms of reference, the recommendation to the Board of the remuneration of non-executive Directors, review and approval of performance-based remuneration, and review and recommendation to our Shareholders as to the fairness and reasonableness of the terms of any Director's service agreement which is subject to the prior approval of our Shareholders in any general meeting pursuant to the Listing Rules. The remuneration committee comprises Professor Sin Yat Ming, Mr. Kiu Wai Ming and Ms. Wong. Professor Sin Yat Ming is the chairman of the remuneration committee.

#### Nomination committee

Our Company established a nomination committee on 11 June 2014 with written terms of reference in compliance with paragraph A5 of the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules. The primary functions of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The nomination committee comprises Mr. Kiu Wai Ming, Mr. Kwan, Professor Sin Yat Ming, Mr. Andrew Look and Dr. Szeto Wing Fu. Mr. Kiu Wai Ming is the chairman of the nomination committee.

#### Strategy and development committee

Our Company established a strategy and development committee on 11 June 2014, comprising of Mr. Kwan as the chairman, Ms. Wong and Dr. Szeto as the other committee members. This committee is an integral part of our Group's management since 2002 prior to the incorporation of our Company. The strategy and development committee's main responsibilities include analysing the market trends and the formulation of our Company's business strategies and plans from time to time.

#### Corporate Governance

We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders as a whole. To accomplish this, we will comply with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules after the Listing.

## DIRECTORS AND SENIOR MANAGEMENT

### Compliance adviser

Our Company has appointed Crosby Securities Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be of a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchase;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an enquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

The term of appointment our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

### COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing and other allowances and other benefits in kind) paid by our Group to our Directors were HK\$2.2 million, HK\$2.6 million and HK\$5.3 million, respectively, for each of the three financial years ended 31 December 2013.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing and other allowances and other benefits in kind), which were paid by our Group to our five highest paid individuals for each of the three financial years ended 31 December 2013 were approximately HK\$3.2 million, HK\$3.7 million and HK\$5.4 million, respectively.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing and other allowances and other benefits in kind), which were paid by our Group to our senior management for each of the three financial years ended 31 December 2013 were approximately HK\$4.2 million, HK\$4.9 million and HK\$5.3 million, respectively.

Under the remuneration policy of our Company, the remuneration committee of our Board will consider factors such as salaries paid by comparable companies, time commitment, responsibilities and performance of our Directors and senior management, as the case may be, in assessing the amount of remuneration payable to our Directors and such employees. Our remuneration committee will periodically review the compensation levels of key executives of our Group. Based on our Group's performance and the executives' respective contribution to our Group, our remuneration committee may, within the aggregate remuneration amount having been approved by a Shareholders' meeting of our Company, make recommendations to our Board of Directors as to salary increases or payment of discretionary bonuses. Under the arrangements currently in force, the aggregate remuneration, excluding discretionary bonuses of our Directors, payable in respect of the financial year ending 31 December 2014 is estimated to be HK\$8.7 million.

## **DIRECTORS AND SENIOR MANAGEMENT**

During the Track Record Period, no remuneration was paid by our Group to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by our Group to, or receivable by, our Directors or the five highest paid individuals for each of the three financial years ended 31 December 2013 for the loss of any office in connection with the management of the affairs of any subsidiary in our Group.

In addition, none of our Directors has waived or agreed to waive any emoluments for any of the last three years. Save as disclosed in the above paragraphs, no other payments have been paid or are payable, by our Company or any of our subsidiaries to our Directors and the five highest paid individuals during the Track Record Period.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue, the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

<u>Name of shareholder</u>	<u>Capacity/Nature of interest</u>	<u>Interests held immediately upon completion of the Global Offering and the Capitalisation Issue</u>	
		<u>Number</u>	<u>Approximate percentage</u>
Ms. Wong <i>(Note 1 &amp; Note 4)</i>	Interests held jointly with other persons; interest in a controlled corporation	393,846,000	62.3%
Think Expert <i>(Note 4)</i>	Beneficial interest; interests held jointly with other persons	393,846,000	62.3%
Mr. PT Tse <i>(Note 2 &amp; Note 4)</i>	Interests held jointly with other persons; interest in a controlled corporation	393,846,000	62.3%
CHAN Suk Hing Comita <i>(Note 5)</i>	Interests of spouse	393,846,000	62.3%
YITAO <i>(Note 4)</i>	Beneficial interest; interests held jointly with other persons	393,846,000	62.3%
Mr. Kwan <i>(Note 3 &amp; Note 4)</i>	Interests held jointly with other persons; interest in a controlled corporation	393,846,000	62.3%
KWAN CHAN Lai Lai <i>(Note 6)</i>	Interests of spouse	393,846,000	62.3%
Prestigious Time <i>(Note 4)</i>	Beneficial interest; interests held jointly with other persons	393,846,000	62.3%
Mr. PS Tse <i>(Note 7)</i>	Beneficial interest	40,811,400	6.5%
CHIU Lai Lin <i>(Note 8)</i>	Interests of spouse	40,811,400	6.5%

## SUBSTANTIAL SHAREHOLDERS

*Notes:*

The letter "L" denotes long position (as defined under Part XV of the SFO) in the Shares.

- (1) Our Company will be directly owned as to 30.3% (being 191,638,200 Shares) by Think Expert immediately following the completion of the Global Offering and the Capitalisation Issue. By virtue of her 100% shareholding in Think Expert, Ms. Wong is deemed to be interested in the same number of Shares held by Think Expert.
- (2) Our Company will be directly owned as to 17.8% (being 112,622,400 Shares) by YITAO immediately following the completion of the Global Offering and the Capitalisation Issue. By virtue of his 100% shareholding in YITAO, Mr. PT Tse is deemed to be interested in the same number of Shares held by YITAO.
- (3) Our Company will be directly owned as to 14.2% (being 89,586,000 Shares) by Prestigious Time immediately following the completion of the Global Offering and the Capitalisation Issue. By virtue of his 100% shareholding in Prestigious Time, Mr. Kwan is deemed to be interested in the same number of Shares held by Prestigious Time.
- (4) Pursuant to the Acting in Concert Confirmation, Ms. Wong, Mr. PT Tse and Mr. Kwan have agreed to jointly control their respective interests in our Company and decisions as to the business and operations of our Group shall be made in accordance with their unanimous consent. Each of our Controlling Shareholders shall exercise their respective voting rights in our Company in the same way. Hence, each of our Controlling Shareholders is deemed to be interested in all the Shares held by our Controlling Shareholders in aggregate by virtue of the SFO.
- (5) CHAN Suk Hing Comita is the wife of Mr. PT Tse and is therefore deemed to be interested in the Shares that Mr. PT Tse is interested in under the SFO.
- (6) KWAN CHAN Lai Lai is the wife of Mr. Kwan and is therefore deemed to be interested in the Shares that Mr. Kwan is interested in under the SFO.
- (7) Mr. PS Tse is the brother of Mr. PT Tse.
- (8) CHIU Lai Lin is the wife of Mr. PS Tse and is therefore deemed to be interested in the Shares that Mr. PS Tse is interested in under the SFO.

Save as disclosed above, our Directors are not aware of any persons who will, immediately following completion of the Global Offering and the Capitalisation Issue, have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

## SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>1,000,000,000</u>	Shares of HK\$0.01 each	<u>10,000,000</u>

Assuming the Over-allotment Option is not exercised, the issued share capital of our Company immediately following completion of the Global Offering and Capitalisation Issue will be as follows:

<i>Issued and to be issued, fully paid or credited as fully paid:</i>		<i>HK\$</i>
1,000,000	Shares in issue at the date of this prospectus	10,000
473,000,000	Shares to be issued pursuant to the Capitalisation Issue	4,730,000
158,000,000	Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option)	1,580,000
<u>632,000,000</u>	Shares	<u>6,320,000</u>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following completion of the Global Offering and Capitalisation Issue will be as follows:

<i>Issued and to be issued, fully paid or credited as fully paid:</i>		<i>HK\$</i>
1,000,000	Shares in issue at the date of this prospectus	10,000
473,000,000	Shares to be issued pursuant to the Capitalisation Issue	4,730,000
181,700,000	Shares to be issued pursuant to the Global Offering (inclusive of all Shares which may be issued upon full exercise of the Over-allotment Option)	1,817,000
<u>655,700,000</u>	Shares	<u>6,557,000</u>

### Assumptions

This table assumes the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

### Ranking

The Offer Shares, including the Shares that may be issued pursuant to the Over-allotment Option, shall rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus except for the Capitalisation Issue.

## SHARE CAPITAL

### Capitalisation Issue

Pursuant to the resolutions of our Shareholders passed on 11 June 2014, conditional upon the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorised to allot and issue a total of 473,000,000 Shares credited as fully paid at par to the Shareholders whose names appear on the register of members of our Company at close of business on 11 June 2014 in proportion to their respective shareholding by way of capitalisation of the sum of HK\$4,730,000 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to the Capitalisation Issue shall rank pari passu in all respects with the existing issued Shares.

### Share Option Schemes

We have conditionally adopted the Pre-IPO Share Option Scheme pursuant to which we granted Pre-IPO Share Options as further described in “Appendix V — Statutory and General Information — E. Share Option Schemes — Pre- IPO Share Option Scheme”. We have also conditionally adopted the Share Option Scheme as further described in “Appendix V — Statutory and General Information — E. Share Option Schemes — Share Option Scheme”.

### GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue; and
- (b) the aggregate nominal value of share capital of our Company repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below.

The aggregate nominal value of the Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares pursuant to (i) a rights issue, or (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association; or (iii) any specific authority granted by the Shareholders in general meeting(s); or (iv) the exercise of options which may be granted under the Share Option Scheme or any arrangement which may be regulated under Chapter 17 of the Listing Rules.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting; or
- (b) the expiration of the period within which our Company is required by the applicable Cayman Islands law or the Articles of Association to hold its next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please see “Appendix V — Statutory and General Information — A. Further Information about our Company — 4. Extraordinary general meeting of our Company dated 11 June 2014” to this prospectus.



## SHARE CAPITAL

### GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue following the completion of the Global Offering and the Capitalisation Issue.

This mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in “Appendix V — Statutory and General Information — A. Further Information about our Company — 6. Repurchase by our Company of its own securities” to this prospectus.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting; or
- (b) the expiration of the period within which our Company is required by the applicable Cayman Island law or the Articles of Association to hold its next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please see “Appendix V — Statutory and General Information — A. Further Information about our Company — 4. Extraordinary general meeting of our Company dated 11 June 2014” in this prospectus.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Islands Company Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Islands Company Law, reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. For details, please see “Appendix IV — Summary of Constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — (c) Alteration of capital” in this prospectus.

Pursuant to the Cayman Islands Company Law and the terms of the Memorandum of Association and Articles of Association, all or any of the special rights attached to the Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, please see “Appendix IV — Summary of Constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — (d) Variation of rights of existing shares or classes of shares” in this prospectus.

## FINANCIAL INFORMATION

*The following discussion and analysis should be read in conjunction with our combined financial statements as at or for the three years ended 31 December 2011, 2012 and 2013 together with the accompanying notes, included in Appendix IA to this prospectus. Our combined financial statements have been prepared in accordance with HKFRS, which may differ in material respects from the generally accepted accounting principles in other jurisdictions. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth in the section "Risk Factors" in this prospectus.*

### OVERVIEW

We are principally engaged in the production and sales of Chinese herbal drinks and other drink products, Chinese-style soups and tortoise and herbal jelly under our reputable and award-winning "鴻福堂 (Hung Fook Tong)" brand mainly in Hong Kong and China. According to the Ipsos Report, we were the top retail chain operator serving principally Chinese herbal drinks, soups and tortoise and herbal jelly in Hong Kong in 2013 with a market share of 34.4% in terms of sales value. We have developed our brand name over 27 years since we commenced operation as a traditional herbal tea shop in Hong Kong in 1986.

We sell our products through two principal channels: (i) **Direct Sales**, which comprises cash sales ("**Cash Sales**") at our retail shops in Hong Kong and the PRC, sales through redemption of coupons and pre-paid membership cards ("**Redemption Sales**") and cash retail sales at other locations ("**Other Cash Sales**"); and (ii) **Indirect Sales**, which comprises sales through third party retailers and wholesale distributors. We sell our Fresh Products mainly through the Direct Sales channels whereas we sell our Long Shelf-life Drinks mainly through the Indirect Sales channels. Therefore, we believe our two principal sales channels complement each other and both help increase the market awareness of our brand, enable us to reach out to a diverse customer base and serve as an effective platform for expanding our sales and ensuring an effective roll-out of new products. In addition to these two principal channels, we also manufacture and sell relatively a small portion of our products to OEM customers and franchisees. The following table sets forth the breakdown of our sales by different sales channels during the Track Record Period.

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Revenue</b>						
Direct Sales	327,225	68.3	401,270	69.3	421,077	65.3
Indirect Sales	142,962	29.8	170,362	29.4	213,762	33.1
Others*	9,111	1.9	7,061	1.3	10,210	1.6
<b>Total</b>	<u>479,298</u>	<u>100.0</u>	<u>578,693</u>	<u>100.0</u>	<u>645,049</u>	<u>100.0</u>

\* Comprised sales to OEM customers and others and franchisees. Sales to OEM customers and others of HK\$6.2 million, HK\$4.2 million and HK\$6.8 million for 2011, 2012 and 2013, respectively, are included in the segment revenue of "Wholesale" and sales to franchisees of HK\$2.9 million, HK\$2.9 million and HK\$3.4 million for 2011, 2012 and 2013, respectively are included in the segment revenue of "Hong Kong Retail" in Note 5 headed "Segment Information" of the accountant's report of our Group as set out in Appendix IA to this prospectus.

## FINANCIAL INFORMATION

### Direct Sales channels

We offer Fresh Products which principally include Chinese herbal and non-herbal drinks, Chinese-style soups, tortoise and herbal jelly and other food and drinks products through our Direct Sales channels. Hong Kong is our largest market contributing 96.9%, 94.6% and 94.0% for 2011, 2012 and 2013, respectively, to our Direct Sales revenue. The following table sets forth the breakdown of our Direct Sales by different sales channels during the Track Record Period.

	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Revenue</b>						
<b>Direct Sales</b>						
Cash sales at retail shops	161,786	49.5	192,178	47.9	202,103	48.0
Sales through redemption of coupons and pre-paid membership card	158,129	48.3	201,757	50.3	213,554	50.7
Cash sales at other locations	7,310	2.2	7,335	1.8	5,420	1.3
<b>TOTAL DIRECT SALES REVENUE</b>	<b>327,225</b>	<b>100.0</b>	<b>401,270</b>	<b>100.0</b>	<b>421,077</b>	<b>100.0</b>

### **Retail shops sales**

We open our retail shops in areas where location is convenient, population density and patronage traffic are high. Our retail shops refer to our self-operated retail shops and do not include the two franchise retail shops operated by our franchisee which is non-profit social enterprise in Hong Kong. As at the Latest Practicable Date, we operated 97 retail shops in Hong Kong, of which 50 of our retail shops are located in MTR stations and 38 are located inside shopping malls.

We commenced our retail operation in China in 2007 when we opened our first retail shop in Shenzhen, followed by additional shops along the lines of the Metro systems in Guangzhou. Through our six years of experience in operating in China, we have learned that, unlike our experience with opening MTR shops along the MTR lines in Hong Kong, all of which generally have high flow of customers with considerable purchasing power for our products, travellers on the local Metro system do not coincide with our target customer groups, which generally belong to the mid-to-high income group in China. Based on this understanding, we have adopted a new strategy since 2013 and now, when we select the locations of opening new retail shops in China, we will look for locations with sufficient flow of mid-to-high income customers, such as central business districts, more affluent commercial and residential areas, and selected stations of the Metro systems.

As at the Latest Practicable Date, we had 25 retail shops in China, with 21 of which located in Guangzhou, one in Foshan and three in Shanghai, comprising one street shop, six shopping mall shops and 18 Metro shops, which are located in Guangzhou Metro railway stations.

### **Coupon and membership card sales**

We offer coupons and membership cards to retail and corporate customers. We commenced selling our coupons to corporate and individual customers in 2004 and created our membership programme in 2008. Redemption Sales represented almost half of our Direct Sales during the Track Record Period. As at the Latest Practicable Date, we had over 380,000 members in our membership programme. Holders of coupons and membership cards can redeem their coupons or stored value in

## FINANCIAL INFORMATION

their membership cards to purchase our products at our retail shops. The paper coupons purchased in Hong Kong can be redeemed within seven to 12 months from date of purchase, and stored value in the membership cards issued in Hong Kong can be redeemed within two years from the date of issuance or the date of last transaction, whichever is later. We also offer electronic coupons for certain products which have validity periods of six months or twelve months. To comply with the relevant PRC laws, the expiry date for our coupons is three years and there is no expiry date for value stored in membership cards issued in China. With respect to our coupons and membership card values in Hong Kong that have expired, we are not legally obliged to accept them, and we generally do not make refund of pre-paid coupons or give extension of validity period for our coupons and membership card value.

Prepayments made by our customers into membership cards or coupons, which is stated net of discounts, represent advances from customers, which are recorded as receipts in advance in our combined statements of financial position and revenue is recognised when our customers redeem the coupons or use the value in their membership cards for our products. Receipts in advance from such prepayments were HK\$78.4 million, HK\$73.2 million and HK\$105.5 million as at 31 December 2011, 2012 and 2013, respectively. Pre-paid coupons and membership cards are issued and sold to customers, and the receipts in respect of which are deferred and recognised as receipts in advance on the combined statements of financial position. We implement a contractual expiry policy for these coupons and cards under which any unutilised prepayments are fully recognised in combined statement of comprehensive income upon their expiry. The amount which represents products yet to be redeemed will be recorded as liability. As at 31 December 2013, we had receipts in advance of HK\$105.5 million, comprising HK\$77.5 million of prepayment by our customers for coupons and HK\$28.0 million of prepayment as stored values in membership cards. In respect of the HK\$77.5 million receipts in advance for coupons, approximately HK\$73.6 million will expire within 12 months (by the end of 2014) and approximately HK\$3.9 million will expire between 12 months and 24 months (by the end of 2015). Of the HK\$28.0 million receipts in advance for stored values in membership cards as at 31 December 2013, HK\$22.9 million were stored value in the pre-paid membership cards issued in Hong Kong, which can be redeemed within two years following the date of issuance or the date of last transaction, whichever is later; and HK\$5.1 million were stored value in the pre-paid membership cards issued in China, which have no expiry date, pursuant to the relevant PRC laws. As customers are not entitled to redeem products after expiry, we fully recognise prepayment after the expiry date as revenue from expired coupons and pre-paid membership card values in the income statement. For the years ended 2011, 2012 and 2013, revenue recognised upon the expiry of pre-paid coupons/membership card values were HK\$3.8 million, HK\$12.4 million and HK\$10.3 million, representing 0.8%, 2.1% and 1.6% of our revenue or 1.2%, 3.1% or 2.4% of our Direct Sales revenue, respectively. Increase in such revenue from HK\$3.8 million in 2011 to HK\$12.4 million in 2012 was mainly because the cash receipt from prepayment for our coupons and pre-paid membership cards increased from HK\$119.5 million in 2010, which mainly expired in 2011, to HK\$187.1 million in 2011, which mainly expired in 2012. For the years ended 31 December 2011, 2012 and 2013, we recorded a forfeiture rate (defined as revenue recognised upon the expiry of pre-paid coupons/membership card values divided by sales of pre-paid coupons and membership cards during the year) of 2.1%, 6.3% and 4.2%. During the Track Record Period, we adopted our revenue recognition policy and prepayment management policy in a consistent manner, and our Directors believe that the forfeiture rate (as defined above) is consistent with the market norm. For more details, please see Note 25 to the Accountant's Report of our Group set out in Appendix IA to this prospectus.

### Other sales

Ancillary to the production of our Fresh Products and Long Shelf-life Drinks, we produce and sell a small portion of our products to our OEM customer and franchisees in Hong Kong. As at the Latest practicable Date, we had two franchise retail shops which are operated by a non-profit social enterprise in Hong Kong. The franchise is granted to this non-profit social enterprise in Hong Kong as

## FINANCIAL INFORMATION

part of our social responsibility programme. We also produce and sell OEM Products to our OEM customer, which is also a major key account customer in Hong Kong, in order to solidify our relationship with this customer. These other sales are ancillary to our principal business and will remain as non-core to us in future.

### Indirect Sales

Our Long Shelf-life Drinks are primarily sold through our Indirect Sales channels to third-party retailers and wholesale distributors. Although we also sell our Long Shelf-life Drinks through our Direct Sales channels, the sales amount of our Long Shelf-life Drinks through our Direct Sales channels is relatively small and amounted to HK\$4.3 million, HK\$4.2 million and HK\$3.6 million for 2011, 2012 and 2013, respectively. Our products sold through our Indirect Sales channels are distinguished from the main products sold through our Direct Sales channels (which are the Fresh Products) in terms of, among others, pricing, packaging, validity and ingredients so that our Fresh Products and Long Shelf-life Drinks do not compete among themselves but they complement each other to increase the market awareness of our brand and enable us to reach out to a diverse customer base. The table below shows a breakdown of our Indirect Sales by different sales channels during the Track Record Period.

	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Revenue</b>						
<b>Indirect Sales</b>						
<b>Hong Kong</b>						
Sales to third-party Retailers	68,001	47.6	81,747	48.0	81,628	38.2
Sales to distributors	19,346	13.5	23,678	13.9	29,739	13.9
	87,347	61.1	105,425	61.9	111,367	52.1
<b>China</b>						
Sales to third-party retailers	10,972	7.7	11,852	6.9	31,866	14.9
Sales to distributors	31,717	22.2	39,501	23.2	54,082	25.3
	42,689	29.9	51,353	30.1	85,948	40.2
<b>Overseas <sup>(1)</sup></b>						
Sales to distributors	12,926	9.0	13,584	8.0	16,447	7.7
<b>TOTAL INDIRECT SALES</b>						
<b>REVENUE</b>	<b>142,962</b>	<b>100.0</b>	<b>170,362</b>	<b>100.0</b>	<b>213,762</b>	<b>100.0</b>

*Note:* (1) Overseas markets include Macau, United States, Canada, Malaysia, Australia, New Zealand, the Philippines, Taiwan and the United Kingdom.

### Hong Kong

In Hong Kong, we sell our Long Shelf-life Drinks mainly to key-account customers, which are mainly large-scale supermarkets and convenience store chains, and our distributors. We believe through the sales networks of our key-account customers, we are able to cover most of the population in Hong Kong. To complement the sales network of our key-account customers, we also sell our Bottle Drinks to other retailers (such as groceries stores, cinemas and restaurants) and to two

## FINANCIAL INFORMATION

third-party distributors which cover individual stores and chain stores of smaller scale. The table below shows a breakdown of our revenue generated from our Indirect Sales by key-account customers and other retailers in Hong Kong during the Track Record Period.

	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Revenue</b>						
<b>Sales to third-party retailers</b>						
— Sales to key-account customers	58,619	86.2	69,520	85.0	70,335	86.2
— Sales to other retailers (e.g. groceries stores, cinemas and restaurants)	9,382	13.8	12,227	15.0	11,293	13.8
<b>Total sales to third-party retailers</b>	68,001	100.0	81,747	100.0	81,628	100.0

### **China**

In China, almost all our third-party retailer customers are also classified as key-account customers. Unlike Hong Kong, China is a fragmented market. We identify those third party retailers with extensive local or regional sales network as our key-account customers and adopt a strategy to establish relationship with these key accounts and sell our products directly to them. We believe that strengthening sales to our key-account customers will allow us to build up our strategic relationship with them and to leverage on their extensive sales channels which enable us to access end-customer feedback more efficiently. At the same time, it is equally important to establish a comprehensive and extensive distributorship network through wholesale distributors, which provides an efficient and cost-effective distribution structure, enabling us to enhance our market penetration in China and to save our resources to plan and maintain an effective logistic capacity to support a nationwide product distribution.

During the Track Record Period, we experienced a remarkable growth in our Indirect Sales business in China, recording a CAGR of 41.8%. Indirect Sales revenue in China increased from HK\$42.7 million for 2011 to HK\$85.9 million for 2013.

The Major Guangdong Cities remain our major markets in China, contributing 72.8% of our Indirect Sales revenue in China for 2013. Shanghai has been becoming more significant to us during the Track Record Period, contributing HK\$2.1 million, HK\$5.3 million and HK\$14.3 million for 2011, 2012 and 2013, respectively, representing 4.9%, 10.4% and 16.6% of our Indirect Sales for the respective years.

### **Overseas**

We sell our products to overseas markets through distributors. Overseas markets represent 9.0%, 8.0% and 7.7% of our Indirect Sales for 2011, 2012 and 2013, respectively during the Track Record Period.

## FINANCIAL INFORMATION

### KEY FACTORS AFFECTING FINANCIAL POSITION AND RESULTS OF OPERATIONS OF OUR GROUP

In correspondence to our current business model mentioned in the paragraph “Overview” above in this section, we summarise below the key factors which, we consider, have affected and will continuously affect our financial position and results of operations.

#### Factor relating to our overall operation

##### *Our brand*

We offer a wide variety of Long Shelf-life Drinks and Fresh Products under our “鴻福堂 (Hung Fook Tong)” brand. We believe that our brand image of “鴻福堂 (Hung Fook Tong)” is vital to our business success and our business has depended and will continue to depend on our brand image of “鴻福堂 (Hung Fook Tong)”. With more than 27 years of history, we have successfully built a strong brand image and gained popular market perception and consumer acceptance among our targeted customers of Chinese formula-based wellness beverages in Hong Kong and we are expanding our market presence in China. Our ability to maintain our “鴻福堂 (Hung Fook Tong)” brand may affect our ability to generate revenues.

#### Factors relating to our Direct Sales

Our Direct Sales is important to our revenue. Our Direct Sales revenues represented 68.3%, 69.3% and 65.3% of our total revenue in 2011, 2012 and 2013, respectively. We operate our retail shops in Hong Kong and China and our Direct Sales revenue can be further analysed by market as follows:

Revenue	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Hong Kong	317,129	96.9	379,683	94.6	395,891	94.0
China	10,096	3.1	21,587	5.4	25,186	6.0
<b>TOTAL DIRECT SALES</b>	<b>327,225</b>	<b>100.0</b>	<b>401,270</b>	<b>100.0</b>	<b>421,077</b>	<b>100.0</b>

Hong Kong is the largest market to us contributing 94.0% to our Direct Sales revenue in 2013.

Although China was not significant to us during the Track Record Period, we believe it represents a huge market potential to us in future when our brand is gaining market awareness and recognition. We aim to expand our market presence in China in future.

We believe that our success in Direct Sales depends on locations (that is whether our shops are located in the area which is convenient to access and have high population density and pedestrian flow) and coverage (that is whether we are able to reach our target customers) of our retail shops.

## FINANCIAL INFORMATION

### **Location and coverage of our retail shops in Hong Kong**

With regard to the locations of our retail shops in Hong Kong, we strategically opened most of our retail shops in Hong Kong in MTR stations and shopping malls. The following table sets forth the breakdown of our retail shops by location as at the dates indicated.

	<b>As at 31 December</b>			<b>As at the Latest Practicable Date</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Date</b>
<b>Number of retail shops in Hong Kong</b>				
Located at MTR stations	48	50	50	50
Located at shopping malls	31	32	34	38
Street shops	7	7	6	9
	<u>86</u>	<u>89</u>	<u>90</u>	<u>97</u>

With regard to the coverage of our retail shops, as at the Latest Practicable Date, 15, 38 and 44 retail shops are located at Hong Kong Island, Kowloon and New Territories, respectively. The table below sets forth the number of retail shops in Hong Kong, by region, as of the dates indicated.

	<b>As at 31 December</b>			<b>As at the Latest Practicable Date</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Date</b>
<b>Number of retail shops in Hong Kong</b>				
Hong Kong Island	14	15	13	15
Kowloon	33	35	37	38
New Territories	39	39	40	44

In addition to our ability to open new shops at the appropriate locations, our profitability is affected in part by our ability to successfully grow sales at the existing retail shops that we operate. One of the methods to measure the growth of our retail shops is to compare revenue from our retail shops that were open throughout the years being compared (the “**Same Store Sales Growth**”). For example, Same Store Sales Growth for 2012 are shops that were open throughout both 2011 and 2012. For the purpose of calculating the Same Store Sales Growth, revenue from our retail shops include Cash Sales and Redemption Sales. The table below sets forth our Same Store Sales Growth in Hong Kong for the years indicated.

	<b>2012</b>		<b>2013</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
<b>Number of comparable retail shops</b>				
Hong Kong <sup>(1)</sup>	72		79	
<b>Comparable retail shops sales (HK\$'000)</b>				
Hong Kong <sup>(1)</sup>	274,037	301,496	324,333	342,544
<b>Same Store Sales Growth rate during comparable periods</b>				
Hong Kong <sup>(1)</sup>	10.0%		5.6%	

Note: (1) Does not include the retail shops operated by our franchisees.



## FINANCIAL INFORMATION

The Same Store Sales Growth rate of our retail shops in Hong Kong was approximately 10.0% and 5.6% for 2012 and 2013, respectively. We consider that our ability to achieve the Same Store Sales Growth of our retail shops in Hong Kong depends on (i) retail market conditions in Hong Kong; (ii) number of visitors particularly from China; (iii) our ability to maintain the popularity of our products and enrich our product offering to meet customer preference; and (iv) our ability to sell and promote our coupons and pre-paid membership cards which directly impact the amount of Redemption Sales. The Same Store Sales Growth rate reduced from 10.0% in 2012 to 5.6% in 2013, which we consider is a normal trend when retail shops have become more mature after opened for a number of years.

### **Location and coverage of our retail shops in China**

During the Track Record Period, our Direct Sales business in China was loss-making. In 2013, we decided to close eight under-performing retail shops in China, which include three Metro shops, one shopping mall shop and one street shop in Guangzhou, and two Metro shops in Shanghai and one shopping mall shop in Shenzhen, which have been loss-making; and in January 2014, we have agreed with the Guangzhou Metro operator to terminate lease agreements for premises on which we were not operating our shops. Two other shopping mall shops in Shenzhen have been closed because the relevant leases could not be renewed with the relevant landlord. Instead of following the business model in Hong Kong to open our retail shops along the Metro stations in China, we shifted our focus to shopping malls in business districts and more affluent commercial and residential areas and to open our retail shops in locations where we believe there are sufficient flow of mid-to-high income population/pedestrian who are our target customers in China as we position ourselves at the mid-to-high end segment of the China wellness beverage market.

The following table sets forth our retail shops by location as at the dates indicated.

	2011		2012		2013		Latest Practicable date			
	shops opened/	(closed)	shops opened/	(closed)	shops opened/	(closed)	shops opened/	(closed)		
Metro shops	7	24	(8)	23	0	(5)	18	0	(0)	18
Shopping mall shops	4	2	(1)	5	5	(4)	6	0	(0)	6
Street shops	4	0	(0)	4	0	(1)	3	0	(2)	1
	<u>15</u>			<u>32</u>			<u>27</u>			<u>25</u>

The following table shows the breakdown in the profitability of our retail shops which we had as at the Latest Practicable Date and those we had already closed to indicate the results of our strategy in 2013 to focus our shop locations to locations with sufficient flow of mid-to-high income customers for our Direct Sales business in China.

	2011			2012			2013		
	shops closed	shops in operation*	Total	shops closed	shops in operation*	Total	shops closed	shops in operation*	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<u>8,667</u>	<u>1,430</u>	<u>10,097</u>	<u>10,407</u>	<u>11,180</u>	<u>21,587</u>	<u>6,143</u>	<u>19,044</u>	<u>25,187</u>
Operating profit/(loss)	(651)	(444)	(1,095)	(3,135)	(43)	(3,092)	(1,311)	2,201	890
Administrative and head office expenses			<u>(5,205)</u>			<u>(3,451)</u>			<u>(4,044)</u>
Net loss before finance cost			<u>(6,300)</u>			<u>(6,543)</u>			<u>(3,154)</u>

\* It refers to the revenue of the retail shops which we had as at the Latest Practicable Date.

## FINANCIAL INFORMATION

### ***Our ability to attract customers to purchase our coupon and pre-paid membership cards***

In addition to cash sales at our retail shops, we sell coupons and membership cards to retail and corporate customers, who can redeem their coupons or stored value in their membership cards to purchase our products at our retail shops. Redemption Sales generated from our coupons and pre-paid membership cards increased from HK\$158.1 million for 2011 to HK\$213.6 million for 2013, representing a CAGR of 16.2%. As at the Latest Practicable Date, we had over 380,000 members in our membership programme, which creates a cluster of loyal and long term customers and contributes positively to our Direct Sales business. As part of our business strategy, we will continue to promote our coupons and pre-paid membership cards with focus on our corporate sales programme to corporate customers. We believe that our success of coupon and pre-paid membership card sales depends on (i) whether we are able to offer competitive discount and bonus scheme to our customers; (ii) whether the locations of our retail shops are convenient for redemption; and (iii) whether we are able to maintain our “鴻福堂 (Hung Fook Tong)” brand with a healthy, wellness and positive image.

### **Factor relating to our Indirect Sales**

#### ***Our relationship with our third-party retailers and distributors and their performance***

Apart from Direct Sales business, our Indirect Sales business is also important to our Group's revenue. During the Track Record Period, Indirect Sales increased from HK\$143.0 million for 2011 to HK\$213.8 million for 2013, a CAGR of 22.3%.

As mentioned in the paragraph “Overview” above in this section, in Indirect Sales, our products (mainly Long Shelf-life Drinks) are sold to our third-party retailers, who sell our products through their own points of sales and, wholesale distributors, who on-sell our products to their sub-distributors, and/or end customers in the markets. We maintain approximately 3 to 10 years of relationship with our major third-party retailers and distributors. It is important to maintain close relationship with our major third-party retailers and distributors in our Indirect Sales business. Moreover, since our third-party retailers and distributors sell and/or distribute our products to retail customers and/or other retail shops or sub-distributors, our Indirect Sales business is affected by whether our third-party retailers and distributors can successfully market and sell our products. If our third-party retailers and distributors fail, it may adversely affect our Group's financial position and results of operation.

### **Other factors relating to our Group's financial position and results of operation**

#### ***Continuous demand for our existing products and our ability to enrich our product offering***

Our products include regular year-round products as well as seasonal products which we roll out in different seasons of the year. We believe that our products have long life-cycle and do not become obsolete easily. Our sales depend on the demand for our existing products. During the Track Record Period, our top 10 selling products accounted for 45.8%, 37.8% and 34.9% of our revenue for 2011, 2012 and 2013, respectively.

Whilst our existing products provide a solid foundation for our sales growth, we also develop new flavours of drinks and products on a regular basis to attract new customers. Sales generated from new products launched during the Track Record Period accounted for 5.4%, 4.5% and 4.2% of our revenue for 2011, 2012 and 2013, respectively.

We believe that our sales growth depends on the growth of our existing products and whether we are able to continue to enrich our product offering to meet the evolving consumer preference.

## FINANCIAL INFORMATION

### ***Growth of Tourism in Hong Kong***

A majority of our revenue was derived from our operations in Hong Kong during the Track Record Period. Given that our “鴻福堂 (Hung Fook Tong)” brand is a household brand servicing Chinese herbal drinks, Chinese-style soups and tortoise and herbal jelly, we believe many tourists, particularly PRC tourists, visiting Hong Kong are attracted to our products. China is one of the world’s fastest growing major economies and is expected to continue to contribute to tourism markets in Hong Kong due to the growth in the income levels of PRC consumers. Accordingly, our Group’s results are affected by the number of PRC tourists visiting Hong Kong. According to the statistics of the Hong Kong Tourism Board, Hong Kong received approximately 48.6 million and 54.3 million visitors from around the world in 2012 and 2013, respectively, representing an increase of 11.7%, over the same period. China continued to be the largest source of tourists in Hong Kong amounting to 34.9 million and 40.7 million visitors and representing 71.8% and 75.0% of the total number of visitors in Hong Kong in 2012 and 2013, respectively. We believe that spending by tourists from China and the development of tourism in Hong Kong will continue to have a significant impact on both our Group’s Direct Sales and Indirect Sales performance.

### ***Cost of raw material***

For each of 2011, 2012 and 2013 during the Track Record Period, our cost of sales amounted to HK\$206.2 million, HK\$227.3 million and HK\$258.0 million, respectively, representing 43.0%, 39.3% and 40.0% of our revenue for each such year. Our cost of sales is mainly comprised of cost of raw materials used in our production process, direct wages and production cost. Raw materials are the major components of our cost of sales, and amounted to HK\$170.1 million, HK\$180.3 million and HK\$204.0 million, representing 82.5%, 79.3% 79.1% of our cost of sales in 2011, 2012 and 2013, respectively. Our major raw materials include bottles and other packaging materials, fresh products such as pork, fruits and fruit juices, dried seafood such as dried fish tripe and dried whelk, cooking ingredients such as sugar, rice and eggs, herbs and herbal medicine such as prayer-bead and ginseng tail and other food items. Therefore, raw material prices have a significant effect on our financial performance.

We source our raw materials mainly from Hong Kong and China. We also purchase some of our raw materials such as fruit juices from Taiwan and Philippines. Therefore any appreciation of foreign currencies of countries from which our raw materials are purchased against the Hong Kong dollar increases our cost of raw materials. The following table shows the breakdown by category of our major raw materials used in our production during the Track Record Period.

	<b>For the year ended 31 December</b>					
	<b>2011</b>		<b>2012</b>		<b>2013</b>	
	<i>HK\$’000</i>	<i>As % of cost of sales</i>	<i>HK\$’000</i>	<i>As % of cost of sales</i>	<i>HK\$’000</i>	<i>As % of cost of sales</i>
Packaging material	61,981	36.4	68,012	37.7	78,683	38.6
Fresh products	27,273	16.0	31,094	17.3	38,349	18.8
Dried seafood	7,782	4.6	5,121	2.8	3,159	1.5
Cooking ingredients	22,587	13.3	19,693	10.9	20,098	9.9
Herbs and herbal medicine	22,767	13.4	23,516	13.1	27,203	13.3
Other food items	27,672	16.3	32,842	18.2	36,484	17.9
	<u>170,062</u>	<u>100.0</u>	<u>180,278</u>	<u>100.0</u>	<u>203,976</u>	<u>100.0</u>

Among all raw materials, 500mL PET plastic bottles our largest raw material item in terms of purchase amount and accounted for 15.0%, 16.7% and 16.8% of our cost of raw materials in 2011, 2012 and 2013, respectively. The average purchase price of 500ml PET plastic bottles remained fairly

## FINANCIAL INFORMATION

stable during the Track Record Period and was decreased by 1.6% in 2012 as compared to 2011 and increased by 4.8% in 2013 as compared to 2012. If the average purchase price of 500mL PET plastic bottles in 2011 was applied to the quantity purchased in 2012 and 2013, the cost of 500mL PET plastic bottles would have increased by HK\$0.9 million and decreased by HK\$1.0 million respectively and the cost of raw materials in respective years would have also been affected accordingly. Other than 500ml PET plastic bottles, we purchased more than 100 items in our production and none of them accounted for more than 10% of our cost of sales in each of the year during the Track Record Period. We experienced increases in raw material prices during the Track Record Period and expect raw material prices are in general on the rising trend in future and we will need to constantly monitor and respond to changes in the costs of our raw materials and adopt various strategies such as increasing selling prices of certain selected product items, introducing new products with higher profit margin and enhancing relationships with our major suppliers, engaging more than one supplier for any raw material to source a better pricing and improving the efficiency of our production process to combat the expected increase in cost of raw materials in future.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in cost of raw material on the profit before tax for the Track Record Period. Fluctuations are assumed to be 5%, 10% and 15% for each of 2011, 2012 and 2013.

Changes in cost of sales	+15%	+10%	+5%	-5%	-10%	-15%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit before tax for the year ended 31 December						
2011	(25,509)	(17,006)	(8,503)	8,503	17,006	25,509
2012	(27,042)	(18,028)	(9,014)	9,014	18,028	27,042
2013	(30,596)	(20,398)	(10,199)	10,199	20,398	30,596

### ***Rental expenses relating to our retail shops***

We lease all the properties on which our retail shops operate. Rental expenses relating to our retail shops constitute a significant part of our overall expenses and amounted to HK\$62.4 million, HK\$74.7 million and HK\$83.4 million for 2011, 2012 and 2013, respectively, which represented 13.0%, 12.9% and 12.9% of our revenue or 19.1%, 18.6% and 19.8% of our Direct Sales revenue for the respective years. As we expand our retail network, we will secure more locations by entering into new lease agreements. For every lease of our retail shops that our Group considers to enter into, we will consider whether the rental expense is within the range acceptable by us, taking into account the expected revenue to be derived by the retail shop in question and the expected breakeven and payback periods. In recent years, rental related expenses in Hong Kong and China have fluctuated, but have overall increased significantly. As a result, as we expand our retail network, we expect our rental expenses relating to our retail shops to increase along with economic growth and inflation.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in rental expenses on the profit before tax for the Track Record Period. Fluctuations are assumed to be 10%, 15% and 20% for each of 2011, 2012 and 2013.

Changes in rental expenses	+20%	+15%	+10%	-10%	-15%	-20%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit before tax for the year ended 31 December						
2011	(12,477)	(9,357)	(6,238)	6,238	9,357	12,477
2012	(14,938)	(11,204)	(7,469)	7,469	11,204	14,938
2013	(16,685)	(12,514)	(8,343)	8,343	12,514	16,685

## FINANCIAL INFORMATION

### Staff cost

Our business operation is service-oriented and our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees including sales managers and staff. We believe high-quality customer service is a key attribute of our success.

We had a total of 1,128, 1,239 and 1,327 employees as at 31 December 2011, 2012 and 2013, respectively. Our staff costs include all salaries and benefits payable to all our employees and staff, including our Directors. Our staff costs remained relatively stable as a percentage of revenue during the Track Record Period and amounted to HK\$125.1 million, HK\$147.8 million and HK\$167.2 million, representing 26.1%, 25.5% and 25.9% of our total revenue for 2011, 2012 and 2013, respectively.

Due to changes in local labour laws in Hong Kong and the general upward market trend in both Hong Kong and China, the salary level of employees in the food and beverage industry has been generally increasing in recent years. We expect our staff costs to continue to increase as inflationary pressures continue to drive up wages.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in staff cost on the profit before tax for the Track Record Period. Fluctuations are assumed to be 5%, 8% and 10% for each of 2011, 2012 and 2013.

Changes in staff cost	+10%	+8%	+5%	-5%	-8%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit before tax for the year ended 31 December						
2011	(12,508)	(10,006)	(6,254)	6,254	10,006	12,508
2012	(14,776)	(11,820)	(7,388)	7,388	11,820	14,776
2013	(16,721)	(13,377)	(8,361)	8,361	13,377	16,721

### REORGANISATION AND BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully described in the section “History and Development — Our Reorganisation” in this prospectus, our Company became the holding company of the subsidiaries now comprising our Group on 14 March 2014.

Immediately prior to and after the Reorganisation, the listing business is held by the companies now comprising our Group which are transferred to and held by our Company through HFT BVI, a wholly-owned subsidiary of our Company. Our Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the listing business with no change in management of such business and the ultimate owners of the listing business remain the same. Accordingly, the combined financial information of the companies now comprising our Group is presented using the carrying values of the listing business under HFT BVI during the Track Record Period.

Inter-company transactions, balances and unrealised gains/losses on transactions between group's companies are eliminated on consolidation.

### ACQUISITION OF TACLON

On 26 March 2014, we entered into the Taclon Sales Purchase Agreement under which we agreed to acquire 100% equity interests in Taclon for a total cash consideration of HK\$82.6 million. The major asset of Taclon is a leasehold property in Tai Po Industrial Estate (the Tai Po production facility) which we plan to use to replace our existing Tsuen Wan production facility and to further

## FINANCIAL INFORMATION

expand our production capacity for our future expansion. For details, please see the section “Business — Production — Production Expansion Plan” in this prospectus. The background of the Taclon Acquisition is described in the section “History and Development — Our Group Companies — Taclon Acquisition” in this prospectus. The Taclon Acquisition was completed on 26 March 2014. The cash consideration of the Taclon Acquisition was fully settled and set-off against the amounts due from HFT Industrial and other related companies. As such, we do not expect the payment of consideration for the Taclon Acquisition to affect the financial position or cash flow of our Group.

The audited financial information of Taclon as of and for the year ended 31 March 2012, nine months ended 31 December 2012 and the year ended 31 December 2013 are included in the Accountant’s Report of Taclon in Appendix 1B to this prospectus.

Appendix II to this prospectus set out our unaudited pro forma financial information as at 31 December 2013, after giving effect to the Taclon Acquisition, as if such acquisition had been completed as at 31 December 2013.

### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

We have identified certain significant accounting policies that are critical to the preparation of our financial information. These significant accounting policies are important for an understanding of our financial position and results of operations and are set forth in Note 2 “Summary of Significant Accounting Policies” of the Accountant’s Report of our Group in Appendix 1A to this prospectus.

The preparation of the financial information requires our management to make significant and subjective estimates, assumptions and judgments based on our own historical experience, knowledge and assessment of our business conditions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at each financial year end during the Track Record Period.

As use of estimates and judgment form an integral part of the financial reporting process, the actual results may differ from these assumptions, estimates and judgments and could result in outcomes that require a material adjustment to the carrying amounts of the assets and liabilities affected in the future. These key assumptions and estimates are set forth in Note 4 “Critical Accounting Estimates and Judgments” of the Accountant’s Report of our Group in Appendix 1A to this prospectus.

Our Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results during the Track Record Period and we have consistently applied these estimates or underlying assumptions during the Track Record Period.

We believe that the following critical accounting policies and accounting estimates involve the most significant judgments and estimates used in the preparation of the combined financial statements.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of rebates and discounts. Rebates and discounts granted to customers are classified as a reduction of revenue. Our Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of our activities as described below:

- (a) Sales of goods are recognised when the transfer of risks and rewards of ownership, which generally considers with the time when the goods are delivered to customers and title has passed. Where a right of return exists, revenue is recognised when a reasonable estimate of returns can be made.

## FINANCIAL INFORMATION

As part of our Group's ordinary activities, pre-paid coupons and cards are issued and sold to customers, and the receipts in respect of which are deferred and recognised as "receipts in advance" on the combined statements of financial position. Our Group implements a contractual expiry policy for these coupons and cards under which any unutilised prepayments are fully recognised in combined statements of comprehensive income upon their expiry.

- (b) Service income is recognised when the services are rendered.
- (c) Interest income is recognised on a time-proportion basis using the effective interest method.
- (d) Franchise and licence fee income are recognised on an accrual basis in accordance with the substance of the relevant agreements.
- (e) Rental income from investment property is recognised in the combined statements of comprehensive income on a straight-line basis over the term of the lease.
- (f) Dividend income is recognised when the right to receive payment is established.

### **Useful lives, residual values and depreciation charge of property, plant and equipment**

We determine the estimated useful lives, residual values and depreciation charges for our Group's property, plant and equipment. We will revise the depreciation charge where useful lives and residual values are different to previous estimates, or we will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

### **Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. We reassess these estimates at each statement of financial position date.

### **Tax provision**

Our Group is subject to income taxes in Hong Kong and in China. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Our Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### **Impairment of trade and other receivables**

Our Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the

## FINANCIAL INFORMATION

expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and impairment is recognised in the year in which such estimate has been changed.

### Provision for reinstatement costs

Provision for reinstatement costs is estimated and reassessed at each statement of financial position date with reference to the recent actual reinstatement cost incurred for shops of similar attributes and latest available quotation from independent contractors. Estimation based on current market information may vary over time and could differ from the actual reinstatement cost upon closures or relocation of existing premises.

### SUMMARY OF RESULTS OF OPERATIONS

The following table summarises our combined revenue and results for the Track Record Period prepared on the basis set out in the audited financial statements as set out in the Accountant's Report of our Group contained in Appendix IA to this prospectus. Potential investors should read this section in conjunction with the Accountant's Report of our Group contained in Appendix IA to this prospectus and not rely merely on the information contained in this section.

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	479,298	578,693	645,049
Cost of sales	(206,206)	(227,295)	(257,950)
<b>Gross profit</b>	<b>273,092</b>	<b>351,398</b>	<b>387,099</b>
Other income	568	596	1,143
Other gains/(losses), net	2,025	(37)	(64)
Selling and distribution costs	(45,134)	(48,068)	(55,249)
Administrative expenses	(218,350)	(252,956)	(282,407)
<b>Operating profit</b>	<b>12,201</b>	<b>50,933</b>	<b>50,522</b>
Finance income	162	3,124	4,303
Finance costs	(2,831)	(5,942)	(6,304)
Finance cost, net	(2,669)	(2,818)	(2,001)
<b>Profit before income tax</b>	<b>9,532</b>	<b>48,115</b>	<b>48,521</b>
Income tax expense	(3,220)	(11,331)	(12,548)
<b>Profit for the year/period</b>	<b>6,312</b>	<b>36,784</b>	<b>35,973</b>
<b>Profit/(loss) attributable to:</b>			
<b>Equity holders of the Company</b>	<b>6,991</b>	<b>35,961</b>	<b>34,468*</b>
<b>Non-controlling interests</b>	<b>(679)</b>	<b>823</b>	<b>1,505</b>
	<b>6,312</b>	<b>36,784</b>	<b>35,973*</b>

Note:

\* After deducting the one-off listing-related expenses of HK\$5.9 million incurred in 2013.



## FINANCIAL INFORMATION

### DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

#### Revenue

Our revenue increased from HK\$479.3 million for 2011 to HK\$578.7 million for 2012 and to HK\$645.0 million for 2013, representing a CAGR of 16.0%.

The following table shows a breakdown of revenue by our sales channels and by geographical locations for the periods indicated:

Revenue	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Direct Sales</b>						
Hong Kong	317,129	66.2	379,683	65.6	395,891	61.4
China	10,096	2.1	21,587	3.7	25,186	3.9
<b>Sub-total for Direct Sales</b>	<b>327,225</b>	<b>68.3</b>	<b>401,270</b>	<b>69.3</b>	<b>421,077</b>	<b>65.3</b>
<b>Indirect Sales</b>						
Hong Kong	87,347	18.2	105,425	18.2	111,367	17.3
China	42,689	8.9	51,353	8.9	85,948	13.3
Overseas	12,926	2.7	13,584	2.3	16,447	2.5
<b>Sub-total for Indirect Sales</b>	<b>142,962</b>	<b>29.8</b>	<b>170,362</b>	<b>29.4</b>	<b>213,762</b>	<b>33.1</b>
<b>Others (e.g. sales to OEM customers and franchisees)</b>						
	9,111	1.9	7,061	1.3	10,210	1.6
<b>TOTAL REVENUE</b>	<b>479,298</b>	<b>100.0</b>	<b>578,693</b>	<b>100.0</b>	<b>645,049</b>	<b>100.0</b>

Our Direct Sales mainly comprise of (i) Cash Sales; (ii) Redemption Sales; and (iii) Other Cash Sales and contributed 68.3%, 69.3% and 65.3% of our total revenues for 2011, 2012 and 2013, respectively. Our Direct Sales revenue increased from HK\$327.2 million in 2011 to HK\$421.1 million in 2013. Hong Kong remained our major market, representing over 94.0% of our Direct Sales for 2013. We had 86, 89 and 90 retail stores in Hong Kong as at 31 December 2011, 2012 and 2013, respectively and we achieved the Same Store Sales Growth of 10.0% and 5.6% in 2012 and 2013, respectively. Our Direct Sales in Hong Kong increased from HK\$317.1 million in 2011 to HK\$379.7 million in 2012 and to HK\$395.9 million in 2013. Our sales growth can be attributable to (i) increasing popularity of our “鴻福堂 (Hung Fook Tong)” brand; (ii) our extensive retail shops network enabling us to reach our target customers; (iii) wide variety of our products which attracts customers’ demand at all year round and festive seasons of the year; and (iv) increase in Redemption Sales to individual and corporate customers. In China, our retail operation was small and not profitable during the Track Record Period. We generated HK\$10.1 million in 2011, HK\$21.6 million in 2012 and HK\$25.2 million revenue in 2013 from our Direct Sales in China. Revenue increased in 2012 mainly because we increased the number of shops we operated from 15 as at 31 December 2011 to 32 as at 31 December 2012 and the increase in revenue in 2013 reflected a better products offering, better management of our shops and better marketing strategy in 2013. As at the Latest Practicable Date, we had 25 retail shops in China, with 21 of which located in Guangzhou, one in Foshan and three in Shanghai, comprising one street store, six shopping mall shops and 18 Metro shops, which are located in Guangzhou Metro railway stations. Despite the increase in revenue, our retail operation in

## FINANCIAL INFORMATION

China was not able to achieve the economy of scale and was still not profitable during the Track Record Period and made losses before finance cost of HK\$6.3 million, HK\$6.5 million and HK\$3.2 million in 2011, 2012 and 2013, respectively.

Our Indirect Sales grew from HK\$143.0 million in 2011, to HK\$170.4 million in 2012 and to HK\$213.8 million in 2013. In Hong Kong, we achieved a healthy growth of 20.7% from 2011 to 2012 and of 5.6% from 2012 to 2013. Our Indirect Sales revenue in Hong Kong increased from HK\$87.3 million in 2011 to HK\$111.4 million in 2013, representing a CAGR of 13.0%. We attribute our sales growth in Hong Kong to the increasing popularity of our “鴻福堂 (Hung Fook Tong)” brand and because of a more buoyant retail market in Hong Kong. In China, we achieved remarkable growth. Revenue from Indirect Sales increased from HK\$42.7 million in 2011 to HK\$85.9 million in 2013, representing a CAGR of 41.8% during the Track Record Period. The following table sets out our Indirect Sales in China by geographical location:

Revenue	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<b>Indirect Sales</b>						
<b>Major Guangdong Cities</b>						
Guangzhou	16,988	39.8	20,041	39.0	28,194	32.8
Shenzhen	12,009	28.1	12,623	24.6	19,192	22.3
Dongguan	9,179	21.5	8,450	16.4	10,153	11.8
Other Guangdong cities*	1,534	3.6	2,846	5.6	5,064	5.9
<b>Subtotal for the Major Guangdong Cities</b>	<b>39,710</b>	<b>93.0</b>	<b>43,960</b>	<b>85.6</b>	<b>62,603</b>	<b>72.8</b>
Shanghai	2,107	4.9	5,340	10.4	14,290	16.6
Others*	872	2.1	2,053	4.0	9,055	10.6
<b>TOTAL</b>	<b>42,689</b>	<b>100.0</b>	<b>51,353</b>	<b>100.0</b>	<b>85,948</b>	<b>100.0</b>

Note:

\* The “Other Guangdong cities” and “Others” comprised 32 cities located in 13 Provinces in China as at 31 December 2013.

The Major Guangdong Cities remained the most important sales region to us in China and our Indirect Sales revenue in the Major Guangdong Cities increased from HK\$39.7 million in 2011 to HK\$62.6 million in 2013. We entered into Shanghai in 2008 and it is now our second largest distribution market in China. Indirect Sales in Shanghai increased significantly from HK\$2.1 million in 2011 to HK\$14.3 million in 2013. These two regions contribute over 80% of our growth in Indirect Sales in China during the Track Record Period. In China, we focus on building a closer relationship with key account customers as well as continuing to expand and enhance our distributorship network.

## FINANCIAL INFORMATION

Whilst we were able to sign on new accounts and generate additional sales, we also increased sales from our existing third-party retailers and distributors. Sales to new third-party retailers and distributors amounted to HK\$3.4 million and HK\$19.4 million in 2012 and 2013 respectively, which contributed significantly to the growth in our Indirect Sales in China during the Track Record Period. The following table sets out our Indirect Sales in China to third-party retailers and distributors during the Track Record Period.

China	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>Indirect Sales to</b>						
third-party retailers	10,972	25.7	11,852	23.1	31,866	37.1
distributors	31,717	74.3	39,501	76.9	54,082	62.9
	42,689	100.0	51,353	100.0	85,948	100.0

Indirect Sales to distributors in overseas countries grew steadily and contributed 2.7%, 2.3% and 2.5% to the total revenue of our Group in 2011, 2012 and 2013, respectively. Such revenue amounted to HK\$12.9 million in 2011, HK\$13.6 million in 2012 and HK\$16.4 million in 2013.

Other sales, comprising of mainly sales to OEM customers and franchisees, amounted to HK\$9.1 million, HK\$7.1 million and HK\$10.2 million in 2011, 2012 and 2013, respectively.

### Revenue by product

Our revenue can be further breakdown by product categories. The following table sets out our revenue generated from our different products during the Track Record Period.

Revenue	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Sales of Fresh Products						
Drinks	119,111	24.9	153,556	26.5	189,646	29.4
Chinese-style soups	76,454	15.9	106,797	18.5	103,688	16.1
Tortoise and herbal jelly	62,578	13.0	67,519	11.7	62,778	9.7
Other food products ( <i>Note</i> )	76,537	16.0	85,222	14.7	101,423	15.7
Subtotal	334,680	69.8	413,094	71.4	457,535	70.9
Sales of Long Shelf-life Drinks	135,507	28.3	158,538	27.4	177,304	27.5
Others	9,111	1.9	7,061	1.2	10,210	1.6
<b>Total</b>	479,298	100.0	578,693	100.0	645,049	100.0

*Note:* Others include snacks, desserts, rice and noodle and festive food products such as rice dumplings for Tuen Ng Festival and moon-cakes for Mid-Autumn Festival and joyous occasion products.

## FINANCIAL INFORMATION

### Sales volume

The following table sets out the sales volume of our products during the Track Record Period.

Sales volume	For the year ended 31 December				
	2011	2012	2011–2012 % change	2013	2012–2013 % change
Fresh Products					
Drinks (million bottles)	8.9	10.4	16.9	13.2	26.9
Chinese-style soups (million, serving size of 400ml)	2.5	3.0	20.0	2.8	(6.7)
Tortoise and herbal jelly (million, serving size of 275ml)	2.8	2.6	(7.1)	2.2	(15.4)
Other food products ( <i>Note</i> )	N/A	N/A	N/A	N/A	N/A
Long Shelf-life Drinks (million bottles)	44.9	52.0	15.8	55.7	7.1

*Note:* Other food products include snacks, desserts, rice and noodles and festival food products. It comprises of a wide variety of food items, some of which are purchased from third party suppliers.

During the Track Record Period, our drinks products under Fresh Products category grew by 16.9% in 2012 as compared to 2011 and then by 26.9% in 2013. This commensurated with our leading position as the top retailer of Chinese herbal drinks, soups and tortoise and herbal jelly in Hong Kong and reflecting the increasing demand for Chinese herbal drinks which accorded with the Ipsos Report. The sales volume of drinks products increased substantially by 26.9% in 2013 because we achieved significant increase in distributing our Fresh Products through our Indirect Sales channels. Sales of Fresh Products through Indirect Sales increased from HK\$11.7 million for 2011 to HK\$40.0 million 2013. Whilst we continue to develop and expand our distribution channels of our Indirect Sales business, the sales volume of Long Shelf-life Drinks also grew. Our soups products experienced 20% growth in terms of sales volume in 2012 but retreated by 6.7% in 2013 after the growth in 2012. According to the Ipsos Report, the tortoise and herbal jelly market is relatively mature and is only expected to grow at a CAGR of 0.5% from 2008 to 2017. Our sales volume of tortoise jelly also experienced a decrease during the Track Record Period.

### Average selling price

The following table sets out the average selling price of our products during the Track Record Period.

Average selling price	For the year ended 31 December		
	2011 <i>HK\$</i>	2012 <i>HK</i>	2013 <i>HK\$</i>
Fresh Products			
Drinks (per bottle)	13.37	14.51	14.25
Chinese-style soups (per serving)	30.33	34.20	34.80
Tortoise and herbal jelly (per serving)	21.73	25.04	27.59
Other food products ( <i>Note</i> )	5 to 30	5 to 27	5 to 30
Long Shelf-life Drinks	3.02	3.05	3.18

*Note:* Based on the actual selling prices of the various food items

## FINANCIAL INFORMATION

During the Track Record Period, we were able to raise the list prices of some of our products in Hong Kong but not in China as China is a more price sensitive market and we intended to keep our pricing in return for better market development. As a result, the average selling prices of our products increased in general during the Track Record Period. We also note that the average selling price of drinks products under Fresh Products decreased in 2013. It is because a higher volume of drinks products under Fresh Products were sold at wholesale price which is at discount to our list price via Indirect Sales channels in 2013 than in 2012, which lowered the average selling price of the drinks products in 2013.

The fluctuation in revenue by products during the Track Record Period can be explained as follows:

### ***Fresh Products — drinks***

- In 2012, revenue increased by 28.9% due to 8.5% increase in average selling price and 16.9% increase in sales volume.
- In 2013, revenue increased by 23.5% due to 26.9% increase in volume offset by 1.8% drop in average selling price which was due to discounts offered in our coupons and membership cards.

### ***Fresh Products — Chinese-style soups***

- In 2012, revenue increased by 39.7% due to 12.8% increase in average selling price and 20.0% increase in sales volume.
- In 2013, revenue dropped by 2.9% mainly due to decrease in sales volume.

### ***Fresh Products — tortoise and herbal jelly***

- In 2012, revenue increased by 7.9% due to 15.2% increase in average selling price but offset by 7.1% drop in sales volume.
- In 2013, revenue dropped by 7.0% as we further increased our average selling price by 10.2% by offering less discounts on our coupons and less promotional sales, which affected our sales volume which dropped by 15.4%.

### ***Fresh Products — other food products***

- Other food products include a wide variety of items such as snacks, desserts, rice and noodles and festive food products. Some of them are produced in our own production facilities and some are purchased from independent suppliers in the market. As the prices of these products have been fairly stable during the Track Record Period, the increase in revenue is mainly due to increase in sales volumes of these products.

### ***Long Shelf-life Drinks***

- In 2012, revenue increased by 17.0% due to 15.8% increase in sales volume and an increase of 1.0% in average selling price.
- In 2013, revenue increased by 11.8% due to both increase in sales volume of 7.1% and average selling price of 4.3%.

## FINANCIAL INFORMATION

### Cost of sales

The following table sets out the components of our cost of sales by type during the Track Record Period.

Cost of sales	For the year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	<i>As % of Revenue</i>	<i>HK\$'000</i>	<i>As % of Revenue</i>	<i>HK\$'000</i>	<i>As % of Revenue</i>
Raw materials	170,062	35.5	180,278	31.2	203,976	31.6
Direct wages	16,201	3.4	18,693	3.2	24,124	3.7
Production overhead	19,943	4.1	28,324	4.9	29,850	4.6
<b>Total</b>	<b>206,206</b>	<b>43.0</b>	<b>227,295</b>	<b>39.3</b>	<b>257,950</b>	<b>40.0</b>

Our cost of sales mainly comprises of cost of raw materials, including principally packaging materials, fresh products, dried seafood, cooking ingredients, herbal medicine and other food items. Direct wages relate to employees involved in production. Production overhead mainly includes rental and depreciation of our production facility, plant and equipment, repair and maintenance cost and water, fuel and electricity charges.

During the Track Record Period, we generally experienced increase in raw material prices. To control our material cost, we normally engaged more than one suppliers for any raw material to source a better pricing and changed our products mix to focus on higher margin products. We also managed to raise the selling prices of certain of our products during the Track Record Period. As a result, the overall cost of raw materials as a percentage of our revenue decreased from 35.5% in 2011 to 31.1% in 2012. In 2013, although some of the purchase prices of our raw materials increased, such increase in purchase prices of raw materials was offset by higher average selling prices of our products because (i) we managed to offer less sales discounts and rebate to our Indirect Sales customers; and (ii) we were able to increase the retail prices of some of our Fresh Products. As a result, we were able to keep the cost of raw materials at 31.6% as a percentage of our revenue in 2013 as compared to 31.1% in 2012. Cost of sales as a percentage of our revenue therefore also decreased from 43.0% in 2011 to 39.3% in 2012 and then stabilised at 40.0% in 2013.

### Gross profit and gross profit margin

The following table sets out the gross profit and gross profit margin by sales channels during the Track Record Period.

	For the year ended 31 December					
	2011		2012		2013	
	<i>Gross Profit</i> <i>HK\$'000</i>	<i>Gross Margin %</i>	<i>Gross Profit</i> <i>HK\$'000</i>	<i>Gross Margin %</i>	<i>Gross Profit</i> <i>HK\$'000</i>	<i>Gross Margin %</i>
Direct Sales	227,214	69.4	288,445	71.9	307,809	73.1
Indirect Sales	42,650	29.8	60,379	35.4	75,656	35.4
Others	3,228	35.4	2,574	36.5	3,634	35.7
<b>Total</b>	<b>273,092</b>	<b>57.0</b>	<b>351,398</b>	<b>60.7</b>	<b>387,099</b>	<b>60.0</b>

## FINANCIAL INFORMATION

The following table sets out the gross profit and gross profit margin by products during the Track Record Period.

	For the year ended 31 December					
	2011		2012		2013	
	<i>Gross Profit</i>	<i>Gross Margin</i>	<i>Gross Profit</i>	<i>Gross Margin</i>	<i>Gross Profit</i>	<i>Gross Margin</i>
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Fresh Products						
Drinks	85,386	71.7	108,293	70.5	131,779	69.5
Chinese-style soups	51,212	67.0	75,652	70.8	74,990	72.3
Tortoise and herbal jelly	50,035	80.0	55,523	82.2	50,314	80.1
Other food products	44,092	57.6	52,454	61.5	67,622	66.7
Subtotal	230,725	68.9	291,922	70.7	324,705	71.0
Long Shelf-life Drinks	39,139	28.9	56,902	35.9	58,760	33.1
Others	3,228	35.4	2,574	36.5	3,634	35.6
<b>Total</b>	<b>273,092</b>	<b>57.0</b>	<b>351,398</b>	<b>60.7</b>	<b>387,099</b>	<b>60.0</b>

As illustrated in the above table, the gross profit margin of the products in Fresh Products, except drinks, increased in 2012 as compared to their respective margin in 2011. The gross profit margin of drinks in Fresh Products decreased from 71.7% in 2011 to 70.5% in 2012 mainly because the rise in the retail prices of certain drinks products could not compensate fully the rise in unit cost of the products. The overall gross profit margin of Fresh Products increased to 70.7% in 2012 from 68.9% in 2011. This also explains why the gross profit margin of Direct Sales, which sells mainly Fresh Products, increased to 71.9% in 2012 from 69.4% in 2011.

In 2013, gross profit margin of Fresh Products slightly increased to 71.0% from 70.7% in 2012. As both the cost of sales as a percentage of revenue and retail prices of some of the products increased in 2013, the net effect resulted in a fairly stable overall gross profit margin for Fresh Products. This proved our ability to pass on the cost increase to our customers because of our brand effect. The gross profit margin of other food products increased from 61.5% in 2012 to 66.7% in 2013, or 8.5% increase, because we constantly changed the product mix and product variety to improve margin. Other food products comprise a wide variety of food and beverage items such as dessert, rice products, joyous and festive products. The overall gross profit margin of Direct Sales in 2013 increased to 73.1% from 71.9% in 2012.

The following table sets out the gross profit and gross profit margin by geographical regions during the Track Record Period.

	For the year ended 31 December					
	2011		2012		2013	
	<i>Gross Profit</i>	<i>Gross Margin</i>	<i>Gross Profit</i>	<i>Gross Margin</i>	<i>Gross Profit</i>	<i>Gross Margin</i>
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Hong Kong	247,891	59.9	315,863	64.2	331,946	64.1
China	20,579	39.0	29,888	41.0	49,172	44.2
Overseas	4,622	35.8	5,647	41.6	5,981	36.4
	273,092	57.0	351,398	60.7	387,099	60.0

## FINANCIAL INFORMATION

### ***Hong Kong***

Sales in Hong Kong comprise Direct Sales, Indirect Sales and others (e.g. sales to OEM customers and franchisees). Direct Sales represented 76.7%, 77.1% and 76.5% of the sales in Hong Kong in 2011, 2012 and 2013, respectively. Therefore, the movement of the gross profit margin was in line with the trend of the gross profit margin of our Direct Sales during the Track Record Period. As the gross profit margins of Indirect Sales and others are lower than the margin of Direct Sales, the overall gross profit margin for Hong Kong is lower than the margin of Direct Sales.

### ***China***

Sales in China comprise Direct Sales and Indirect Sales. Indirect Sales represented 80.9%, 70.4% and 77.3% of the sales in China in 2011, 2012 and 2013, respectively. The percentage increase in the overall gross profit margin for China in 2012 was less than the percentage increase in the gross profit margin of Indirect Sales in the same year because the increase in the gross profit margin of Indirect Sales in 2012 was partly due to the reduced discounts and rebates offered to our Indirect Sales customers in Hong Kong, the effect of which was reflected in the margin for Hong Kong. In 2013, the overall gross profit margin for China was increased to 44.2% despite the fact that the gross profit margin of Indirect Sales remained the same in 2013 as compared to 2012. This is because the overall gross profit margin for China includes the gross profit margin of Direct Sales which has a higher gross profit margin than Indirect Sales.

### ***Overseas***

Sales in overseas comprise Indirect Sales to distributors in overseas countries.

The gross profit margin of Long Shelf-life Drinks increased to 35.9% in 2012 from 28.9% in 2011, mainly due to (i) 4.4 percentage points decrease in the overall cost of raw materials, as a percentage of revenue, in 2012; and (ii) higher net average wholesale price resulting from less discounts and rebate offered to our Indirect Sales customers in Hong Kong. Similar to Long Shelf-life Drinks, the gross profit margin of Indirect Sales increased to 35.4% in 2012 from 29.8% in 2011. In 2013, gross profit margin of Long Shelf-life Drinks decreased to 33.1% mainly due to increase in unit cost of Long Shelf-life Drinks and more discounts offered to our Indirect Sales customers in China in order to promote sales. The gross profit margin of Indirect Sales should have decreased in 2013 due to increase in unit cost but since the sales amount of Fresh Products through Indirect Sales channels increased from HK\$16.0 million in 2012 to HK\$40.0 million in 2013, which had a higher margin than Long Shelf-life Drinks, Indirect Sales in 2013 was able to maintain its gross profit margin at 35.4%.

The gross profit margin of others, being sales to OEM customers and franchisees, remained fairly stable in the range of 35.4% to 36.5% during the Track Record Period.

As a result of the above, our Group's overall gross profit margin increased from 57.0% in 2011 to 60.7% in 2012 and then maintained at 60.0% in 2013.



## FINANCIAL INFORMATION

### Other income and gains

The following table shows the breakdown of “other income” and “other gains/(losses)” during the Track Record Period.

	For the year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Other income</b>			
Rental income	251	238	253
Franchisee income	197	189	430
Others	120	169	460
	568	596	1,143
<b>Other gain/(losses)</b>			
Gain/(loss) on disposal of fixed asset	2,025	(37)	(64)

The other gain of HK\$2,025,000 in 2011 represented the gain on disposal of a property. The “others” category within “other income” included staff sales proceeds of HK\$160,000 in 2013.

### Selling and distribution expenses

The following table sets forth the breakdown of our selling and distribution expenses during the Track Record Period.

	Year ended 31 December					
	2011		2012		2013	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
Advertising and promotion expenses	23,435	4.9	22,250	3.8	25,405	3.9
Transportation	13,861	2.9	15,999	2.8	20,566	3.2
Salaries and commission	1,859	0.4	3,326	0.6	4,203	0.7
Others	5,979	1.2	6,493	1.1	5,075	0.8
	45,134	9.4	48,068	8.3	55,249	8.6

Our selling and distribution expenses mainly comprised advertising and promotion expenses and transportation cost. For 2011, 2012 and 2013, we incurred selling and distribution expenses of HK\$45.1 million, HK\$48.1 million and HK\$55.2 million, respectively, representing 9.4%, 8.3% and 8.6% of our revenue, respectively.

## FINANCIAL INFORMATION

### Administrative expenses

The following table sets forth the breakdown of our administrative expense during the Track Record Period.

	Year ended 31 December					
	2011		2012		2013	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
Staff cost (including Directors emolument)	107,386	22.4%	126,483	21.9%	139,719	21.7%
Operating lease rental	63,530	13.3%	74,649	12.9%	83,041	12.9%
Depreciation	13,319	2.8%	14,617	2.5%	14,174	2.2%
Auditors remuneration	661	0.1%	1,065	0.2%	1,398	0.2%
Legal and professional fee <sup>(1)</sup>	816	0.2%	716	0.1%	1,775	0.3%
Repair and maintenance expenses	1,878	0.4%	1,851	0.3%	1,857	0.3%
Transportation	2,458	0.5%	4,391	0.8%	4,477	0.7%
Provision for/(reversal of provision for) obsolete inventories	127	0.0%	477	0.1%	(167)	0.0%
Provision for/(reversal of provision for) impairment on trade receivables	970	0.2%	(4)	0.0%	298	0.0%
Utilities <sup>(2)</sup>	8,959	1.9%	10,799	1.9%	10,722	1.7%
Postage, printing and stationery	2,869	0.6%	2,331	0.4%	3,082	0.5%
Listing related expenses <sup>(3)</sup>	—	0.0%	—	0.0%	5,889	0.9%
Others <sup>(4)</sup>	<u>15,377</u>	3.2%	<u>15,581</u>	2.7%	<u>16,142</u>	2.5%
	<u>218,350</u>	45.6%	<u>252,956</u>	43.7%	<u>282,407</u>	43.8%

*Notes:*

- (1) Legal and professional fee mainly comprised legal fees and taxation service fees
- (2) Utilities include electricity and water, air-conditioning and cleaning expenses
- (3) Listing related expenses relate to various professional advisers expenses incurred for the Global Offering, which was recorded according to the progress of such services.
- (4) Others mainly include insurances, cleaning fees, entertainment expenses, licences and membership fee, tools and samples fee and other sundry expenses.

Our administrative expenses mainly comprised expenses from salary and bonus, benefits of our staff, directors' emoluments, depreciation costs and other expenses related to our operating function. For the year ended 31 December 2011, 2012 and 2013, we incurred operating expense of HK\$218.4 million, HK\$253.0 million and HK\$282.4 million, respectively, representing 45.6%, 43.7% and 43.8% of our revenue, respectively.

### Finance income

Finance income included interest of HK\$2.6 million in 2012 and HK\$3.9 million in 2013 received from HFT Industrial for the advance to HFT Industrial. The remaining balance represented bank interest received from our bank deposits.

## FINANCIAL INFORMATION

### Finance costs

Finance costs during the Track Record Period mainly comprised interest on our bank loans.

### Income tax expense

Our income tax represents corporate income tax for the entities comprising our Group, including PRC enterprise income tax and Hong Kong profits tax.

Hong Kong profit tax is calculated at 16.5% of the estimated assessable profits of the respective group entities for the Track Record Period.

The companies now comprising our Group incorporated in China are subject to Enterprise Income Tax (“EIT”) in accordance with the Law of the PRC on Enterprise Income Tax (the “EIT Law”). Under the EIT Law, the income tax rate applicable to the subsidiaries now comprising our Group is 25%.

We consider that we have paid all relevant taxes and there is no dispute or material unresolved tax issue with the relevant tax authorities during the Track Record Period.

## PERIOD TO PERIOD COMPARISON OF RESULTS OF OUR OPERATIONS

### 2013 compared to 2012

#### Revenue

For 2013, our revenue amounted to HK\$645.0 million, representing an increase of HK\$66.3 million or 11.5% as compared to that of 2012 of HK\$578.7 million, of which HK\$19.8 million and HK\$43.4 million were contributed by the increase in Direct Sales and Indirect Sales, respectively. The increase in Direct Sales is mainly attributable to increase in comparable shop sales (which include Cash Sales and Redemption Sales) from 2012 to 2013. The increase in Indirect Sales is mainly attributable to the increase in our Indirect Sales in China by HK\$34.6 million or 67.1% from HK\$51.4 million in 2012 to HK\$85.9 million in 2013, which mainly reflected:

- HK\$19.4 million sales from new third party retailers and distributors; and
- HK\$15.2 million increase in sales from existing third-party retailers and distributors, which we believe is attributable to (i) increasing popularity of our “鴻福堂 (Hung Fook Tong)” brand; (ii) growing consumer consciousness of food safety and preference of Chinese formulated wellness drinks; and (iii) the rising disposal income level in China. As a result, we were also able to offer less sales discounts and rebate to our Indirect Sales customers in 2013 as compared to 2012.

#### Cost of sales

For 2013, our cost of sales amounted to HK\$258.0 million, representing an increase of HK\$30.7 million or 13.5% as compared to that of 2012 of approximately HK\$227.3 million. The percentage increase in cost of sales was more than the percentage increase of our revenue of 11.5%. It is because our cost of raw materials increased slightly from 31.1% to 31.6% as a percentage to revenue, resulting in the overall cost of sales slightly increased from 39.3% or 2012 to 40.0% in 2013.

## FINANCIAL INFORMATION

### **Gross profit and gross profit margin**

For 2013, our gross profit amounted to HK\$387.1 million, representing an increase of HK\$35.7 million or 10.2% as compared to that of 2012 of HK\$351.4 million, and our gross profit margin was 60.0%, representing a decrease of 0.7 percentage points as compared to that of 2012 of 60.7%. Despite the increase in our cost of sales in 2013, such increase was offset by (i) less sales discounts and rebate to our Indirect Sales customers; and (ii) rise in retail prices of some of our Fresh Products and Long Shelf-life Drinks and as a result, we were able to keep the cost of sales at 40.0% as a percentage of our revenue in 2013 and maintained our gross profit margin at 60.0%.

### **Other income and gains**

Increase in other income in 2013 was mainly due to increase in franchise fee. In 2011 and 2012, we had waived our franchise fee charged to one of the franchisees in Hong Kong, which is a non-profit organisation.

### **Selling and distribution expenses**

For 2013, our selling and distribution expenses amounted to HK\$55.2 million, representing an increase of HK\$7.1 million or 14.8% as compared to that of 2012 of HK\$48.1 million. Such increase was mainly attributable to increase in advertising and promotion expenses and transportation cost and is in line with the increase in revenue.

### **Administrative expenses**

For 2013, our administrative expenses amounted to HK\$282.4 million, representing an increase of HK\$29.4 million or 11.6% as compared to that of 2012 of HK\$253.0 million. The major components of administrative expenses are staff cost, rental expenses and utilities, which in aggregate increased by HK\$21.6 million or 10.2% and was in line with the increase in revenue of 11.5%. The administrative expenses in 2013 also included expenses of HK\$5.9 million in relation to the Global Offering.

### **Finance income**

Finance income increased in 2013 because we received interest of HK\$3.9 million in 2013 from HFT Industrial, as compared to HK\$2.6 million in 2012.

### **Finance costs**

Finance cost increased by HK\$0.4 million because interest cost on bank loans drawdown in 2012 took a full year effect in 2013.

### **Profit before income tax**

For 2013, our profit before income tax amounted to HK\$48.5 million. However, our profit is distorted by a one off Listing-related expenses of HK\$5.9 million incurred in 2013. If such listing-related expenses were excluded, our profit before income tax ("**Adjusted Before Tax Profit**") would be adjusted to HK\$54.4 million, representing an increase of HK\$6.3 million, or 12.9%, as compared to that of 2012 of HK\$48.1 million. The increase in the Adjusted Before Tax Profit in 2013 was mainly due to increase in our sales and our ability to maintain a stable cost structure as a percentage of revenue. Although our Direct Sales business in China was still loss making, loss before finance cost for our retail operation in China was reduced from HK\$6.5 million in 2012 to HK\$3.2 million in 2013 since we refined our retail network strategy in China in 2013, which is described in more details in the section "Business" in this prospectus.

## FINANCIAL INFORMATION

### ***Income tax expense***

For 2013, our income tax expense amounted to HK\$12.5 million, representing an increase of HK\$1.2 million or 10.6% as compared to that of 2012 of HK\$11.3 million, mainly reflecting an increase in our profit before income tax (based on the Adjusted Before Tax Profit). Our effective tax rate was 23.1% for 2013 (based on the Adjusted Before Tax Profit), as compared to 23.5% for 2012.

### ***Profit attributable to equity holders of our Company ("Net Profit")***

As a result of the above, our Net Profit, after adjusting for the one off Listing-related expenses of HK\$5.9 million, amounted to HK\$40.4 million, representing an increase of 12.2%, as compared to the net profit of HK\$36.0 million in 2012.

### **2012 compared to 2011**

#### ***Revenue***

For 2012, our revenue amounted to HK\$578.7 million, representing an increase of HK\$99.4 million or 20.7% as compared to that of 2011 of HK\$479.3 million, of which HK\$74.0 million and HK\$27.4 million were contributed by the increase in Direct Sales and Indirect Sales, respectively. The increase in Direct Sales mainly reflected:

- HK\$27.5 million increase in comparable shop sales (which include Cash Sales and Redemption Sales) in Hong Kong from 2011 to 2012;
- HK\$28.1 million increase in revenue from 12 new retail shops opened in 2011 and 5 new retail shops opened in Hong Kong in 2012;
- HK\$8.6 million increase in income recognised upon the expiry of pre-paid coupons; and
- HK\$11.5 million increase in Direct Sales revenue in China as the number of retail shops increased from 15 as at 31 December 2011 to 32 as at 31 December 2012.

The increase in Indirect Sales is mainly attributable to:

- HK\$18.1 million increase in Indirect Sales in Hong Kong reflecting stronger demand from our key account customers; and
- HK\$8.7 million increase in China Indirect Sales.

#### ***Cost of sales***

For 2012, our cost of sales amounted to HK\$227.3 million, representing an increase of approximately HK\$21.1 million or 10.2% as compared to that of 2011 of HK\$206.2 million. In 2012, we generally experienced increase in raw material prices but this increase was covered by a higher selling prices of certain of our products and better product mix. As a result, our cost of sales as a percentage of revenue decreased from 43.0% in 2011 to 39.3% in 2012.

#### ***Gross profit and gross profit margin***

For 2012, our gross profit amounted to HK\$351.4 million, representing an increase of HK\$78.3 million or 28.7% as compared to that of 2011 of HK\$273.1 million, and our gross profit margin increased from 57.0% in 2011 to 60.7% in 2012, representing an increase of 3.7 percentage points. The increase in gross profit margin was mainly a result of our ability to raise our products selling prices to pass on our cost increase to our customers.

## FINANCIAL INFORMATION

### ***Other income and gains***

Other income remained stable in 2011 and 2012 whilst there was a gain of HK\$2.2 million on disposal of a property in other gains category in 2011.

### ***Selling and distribution expenses***

For 2012, our selling and distribution expenses amounted to HK\$48.1 million, representing an increase of HK\$3.0 million or 6.7% as compared to that of 2011 of HK\$45.1 million. Such increase was mainly attributable to the increase in transportation cost.

### ***Administrative expense***

For 2012, our administrative expense amounted to HK\$253.0 million, representing an increase of HK\$34.6 million or 15.8% as compared to that of 2011 of HK\$218.4 million. Such increase was mainly due to increase of HK\$33.4 million in aggregate of staff cost, rental expenses, depreciation and utilities, representing an increase of 17.3% which was in line with the 20.7% increase in revenue.

### ***Finance income***

In 2012, finance income increased due to interest of HK\$2.6 million from HFT Industrial.

### ***Finance costs***

The increase in finance costs in 2012 was mainly due to the interest cost charged on our bank loans.

### ***Profit before income tax***

For 2012, our profit before income tax amounted to approximately HK\$48.1 million, representing an increase of HK\$38.5 million, or approximately five times as compared to that of HK\$9.6 million for 2011. Such increase was mainly due to HK\$78.3 million increase in gross profit as a result of 20.7% increase in revenue and 3.7 percentage points increase in gross profit margin, net off by HK\$37.6 million increase in selling and distribution and administration costs, which increased less than the increase in the revenue because of the economies of scale in 2012. The loss before finance cost of our Direct Sales business in China amounted to HK\$6.5 million, as compared to that of HK\$6.3 million in 2011. In 2012, there was an impairment loss of HK\$1.6 million reflecting the carrying amounts of certain retail shops in China exceeding their recoverable amount due to losses.

### ***Income tax expense***

For 2012, our income tax expense amounted to HK\$11.3 million, representing an increase of HK\$8.1 million or approximately three times as compared to that of HK\$3.2 million for 2011, mainly reflecting the increase in our profit before income tax. Our effective tax rate was 23.5% in 2012 and 33.9% in 2011. We had a higher effective tax rate in 2011 because our taxable profit in Hong Kong is lower in 2011 and we did not record deferred tax assets in respect of the tax losses of HK\$10.1 million for the PRC retail shops sales business.

### ***Net Profit***

As a result of the above, our Net Profit increased by approximately 6 times from HK\$6.3 million in 2011 to HK\$36.8 million in 2012.

## FINANCIAL INFORMATION

### LIQUIDITY AND CAPITAL STRUCTURE

We have historically financed our operations (which included funding required for working capital and acquisition of property, plant and equipment) and advances to our related parties through a combination of cash flow from operations and bank borrowings. We expect to fund our future operations and expansion plans principally with cash generated from our operations, bank borrowings and the net proceeds from the Global Offering and other funds raised from capital markets from time to time, when necessary.

#### Cash flows

The table below sets out the changes in cash flow of our Group for the years indicated.

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	27,452	57,275	58,896
Net cash used in investing activities	(30,108)	(111,156)	(18,327)
Net cash generated from financing activities	7,857	38,584	792
<b>Net increase/(decrease) in cash and cash equivalents</b>	5,201	(15,297)	41,361
Effect of currency translation difference	(265)	241	587
Cash and cash equivalents at beginning of year	32,903	37,839	22,783
<b>Cash and cash equivalents at end of year</b>	<b>37,839</b>	<b>22,783</b>	<b>64,731</b>

#### Net cash generated from operating activities

Throughout the Track Record Period, we had net cash inflow from our operating activities. Our cash inflow from operating activities was principally derived from the cash sales of our products in our retail stores, sales of our Long Shelf-life Drinks to third party retailers and distributors and the issue of pre-paid coupons and membership cards. Our cash outflow from operating activities principally arose from payment for the costs of our products and expenses relating to our operating activities.

Our net cash inflow from operating activities increased from HK\$27.5 million for 2011 to HK\$57.3 million for 2012 and remained at similar level at HK\$58.9 million for 2013. Our strong net cash inflow from operating activities was attributable to the growth in the cash sales of our products in our retail stores, sales of our Long Shelf-life Drinks to third-party retailers and distributors and the issue of pre-paid coupons and membership cards.

#### Net cash flow used in investing activities

During the Track Record Period, cash used in our investing activities principally arose from the purchase of property, plant and equipment and the increase in amounts due from related companies.

For 2013, we had net cash outflow from investing activities of HK\$18.3 million, which mainly arose from the purchase of property, plant and equipment amounting to HK\$15.3 million, increase in bank deposit with original maturity over three months and pledged bank deposits of an aggregate amount of HK\$10.0 million, and increase in advances to directors of HK\$10.2 million, net off with repayment from related companies of HK\$16.9 million.

## FINANCIAL INFORMATION

For 2012, we had net cash outflow from investing activities of HK\$111.2 million, which mainly arose from the advance of HK\$87.8 million to our related companies and the purchase of property, plant and equipment of HK\$16.0 million. The significant increase in the advance to our related companies mainly represented an advance of HK\$76.1 million to HFT Industrial to partially finance its acquisition of Taclon in April 2012.

For 2011, we had net cash outflow from investing activities of HK\$30.1 million, which mainly arose from the purchase of property, plant and equipment of HK\$29.0 million.

### Net cash flow generated from financing activities

During the Track Record Period, the cash inflow generated from our financing activities was mainly derived from new bank borrowings whereas the cash outflow used in our financing activities was mainly due to repayment of bank loans and payment of dividend.

For 2013, we had net cash inflow generated from financing activities of HK\$0.8 million, which mainly resulted from the net effect of the proceeds from new borrowings of HK\$88.6 million and repayment of bank loans of HK\$84.9 million.

For 2012, we had net cash inflow generated from financing activities of HK\$38.6 million, which mainly represented the net effect of the proceeds from new bank borrowing of HK\$99.3 million and repayment of bank loans of HK\$54.7 million.

For 2011, we had net cash inflow generated from financing activities of HK\$7.9 million, which mainly represented the net effect of the proceeds from new bank borrowing of HK\$26.3 million, repayment of bank loans of HK\$8.5 million and payment of dividend of HK\$7.0 million.

### Capital Expenditures

Our capital expenditures during the Track Record Period were primarily comprised of expenditures on plants and machinery, leasehold improvements and office and computer equipment. The following table sets forth our capital expenditures by nature for the years indicated.

	Year ended 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase of plant and machinery	15,673	8,494	16,447
Additions to leasehold improvement	10,030	6,309	6,721
Purchase of office and computer equipment, furniture and fixtures and motor vehicles	3,445	1,613	2,145
	29,148	16,416	25,313

On 26 March 2014, we acquired Taclon at a consideration of HK\$82.6 million. The principal asset of Taclon as at 31 December 2013 was the leased property in Tai Po, Hong Kong (which will become our principal production facilities in Hong Kong) having a market value of HK\$154.2 million as at 31 March 2014.



## FINANCIAL INFORMATION

The table below sets forth the details of our capital expenditure to be incurred in the year of 2014.

<b>Description</b>	<b>Estimated cost</b> <i>HK\$ million</i>
Purchase of plant and equipment for Tai Po factory <i>(Note 1)</i>	26.6
Additions to leasehold improvement for Tai Po factory <i>(Note 1)</i>	24.3
Purchase of plant and equipment for Suzhou factory <i>(Note 2)</i>	4.1
Additions to leasehold improvement for Suzhou factory <i>(Note 2)</i>	5.4
Capital expenditure for opening of new retail stores	23.9
Capital expenditure for renovation of existing retail stores	11.3
Others (computer systems and equipments)	13.8
<b>Total</b>	<b>109.4</b>

*Notes:*

- (1) Total investment in Tai Po factory is estimated to be HK\$76.0 million, among which HK\$23.0 million was paid in 2013 and HK\$2.1 million would be paid in 2015.
- (2) Total investment in Suzhou factory is estimated to be HK\$11.8 million, among which HK\$2.3 million was paid in 2013.

We plan to finance our future capital expenditures mainly through the net proceeds from the Global Offering, bank borrowings and cash flows generated from operations.

### **Current assets and current liabilities**

We had net current liabilities of HK\$42.3 million and HK\$79.1 million as at 31 December 2011 and 2012, respectively, and net current assets of HK\$4.8 million as at 31 December 2013. The table below sets forth our current assets and current liabilities as at the dates indicated.

	<b>As at 31 December</b>			<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>30 April</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2014</b> <i>(Unaudited)</i> <i>HK\$'000</i>
<b>Current assets</b>				
Inventories	21,004	22,500	29,375	37,406
Trade receivables	49,531	49,245	66,414	60,818
Prepayments, deposits and other receivables	13,773	19,923	31,026	68,066
Amounts due from related companies	1,522	14,824	42,212	26
Amounts due from directors	31,773	35,068	43,338	38,783
Tax recoverable	—	664	480	1,593
Restricted cash	17,184	21,028	31,073	26,646
Cash and cash equivalent	54,582	43,249	64,738	61,752
	<b>189,369</b>	<b>206,501</b>	<b>308,656</b>	<b>295,090</b>

## FINANCIAL INFORMATION

	As at 31 December			As at 30 April 2014
	2011	2012	2013	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities				
Trade and bill payables	29,457	33,138	34,863	31,642
Accruals and other payables	42,782	47,369	47,386	59,483
Provision for reinstatement costs	1,008	1,471	3,730	3,730
Receipts in advance	78,395	73,222	105,521	112,107
Amounts due to related companies	82	101	19,082	19,127
Amounts due to directors	10,422	9,421	9,784	13,482
Bank borrowings	68,565	116,907	77,127	86,556
Obligation under finance leases	93	—	893	1,019
Taxation payable	909	3,975	5,441	9,381
	<u>231,713</u>	<u>285,604</u>	<u>303,827</u>	<u>336,527</u>
Net current (liabilities)/assets	<u>(42,344)</u>	<u>(79,103)</u>	<u>4,829</u>	<u>(41,437)</u>

### **Comparison of net current liabilities as at 31 December 2011 and 31 December 2012**

We had net current liabilities of HK\$42.3 million as at 31 December 2011 which was mainly attributable to two major current liabilities items, namely receipts in advance and bank borrowings. Receipts in advance represents the value of the unexpired pre-paid coupons and membership cards which are not yet redeemed by the customers. Holders of our unexpired pre-paid coupons and membership cards can only redeem such coupons and prepayments for our products and we are not required to settle such liabilities in cash. For bank borrowings, given that all of our bank loans as at 31 December 2011 contained a repayment on demand clause, they were all classified as current liabilities.

Our net current liabilities increased to HK\$79.1 million as at 31 December 2012. The increase was largely attributable to the increase in our short term bank borrowings from HK\$68.6 million as at 31 December 2011 to HK\$116.9 million as at 31 December 2012. The funds from the additional bank borrowings was mostly advanced to HFT Industrial (which was classified as non-current assets) to partially finance its acquisition of Taclon in April 2012.

### **Comparison of net current liabilities as at 31 December 2012 and net current assets as at 31 December 2013**

We had net current assets of HK\$4.8 million as at 31 December 2013 as compared to our net current liabilities of HK\$79.1 million as at 31 December 2012. The improvement was largely the result of (i) an increase in our revenue leading to increase in trade receivables and cash; and (ii) an increase in the current portion of the amount due from related companies arising from the advances to HFT Industrial for its purchase of plant and machinery for Taclon's plant in Tai Po. In addition, during 2013, some of our bank creditors agreed to remove the repayment on demand clause for some of our bank loans, thus enabling us to classify certain portions of our bank loans as non-current liabilities.

### **Net current liabilities as at 30 April 2014**

Based on our unaudited management accounts, we had net current liabilities of HK\$41.4 million as at 30 April 2014 which was mainly due to the factor that the amount due from related companies as at 31 December 2013 was used to settle the consideration for the Taclon Acquisition of HK\$82.6 million on 26 March 2014.

## FINANCIAL INFORMATION

### DISCUSSION OF CERTAIN KEY BALANCE SHEET ITEMS

The following table sets out our summary combined/consolidated statement of financial position as at the relevant balance sheet dates indicated.

	As at 31 December			As at
	2011	2012	2013	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2014 (Unaudited) <i>HK\$'000</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	40,251	38,199	44,505	203,880
Investment property	916	887	858	848
Amounts due from related companies	5,880	82,949	61,655	—
Prepayments and deposits	20,437	22,699	15,812	21,142
Deferred income tax assets	9,963	6,383	4,692	6,184
	<u>77,477</u>	<u>151,117</u>	<u>127,522</u>	<u>232,054</u>
<b>Current assets</b>				
Inventories	21,004	22,500	29,375	37,406
Trade receivables	49,531	49,245	66,414	60,818
Prepayments, deposits and other receivables	13,773	19,923	31,026	68,066
Amounts due from related companies	1,522	14,824	42,212	26
Amounts due from directors	31,773	35,068	43,338	38,783
Tax recoverable	—	664	480	1,593
Restricted cash	17,184	21,028	31,073	26,646
Cash and cash equivalents	54,582	43,249	64,738	61,752
	<u>189,369</u>	<u>206,501</u>	<u>308,656</u>	<u>295,090</u>
<b>Total assets</b>	<u>266,816</u>	<u>357,618</u>	<u>436,178</u>	<u>527,144</u>
<b>EQUITY</b>				
Share capital	—	—	—	10
Reserves	30,645	66,957	102,297	107,837
	<u>30,645</u>	<u>66,957</u>	<u>102,297</u>	<u>107,847</u>
Non-controlling interests	212	1,099	2,704	2,903
<b>Total equity</b>	<u>30,857</u>	<u>68,056</u>	<u>105,001</u>	<u>110,750</u>

## FINANCIAL INFORMATION

	As at 31 December			As at 30 April 2014
	2011	2012	2013	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Provision for reinstatement costs	4,012	3,773	1,540	1,540
Deferred income tax liabilities	234	185	286	286
Bank borrowings	—	—	23,029	75,448
Obligation under finance leases	—	—	2,495	2,593
	4,246	3,958	27,350	79,867
<b>Current liabilities</b>				
Trade and bill payables	29,457	33,138	34,863	31,642
Accruals and other payables	42,782	47,369	47,386	59,483
Provision for reinstatement costs	1,008	1,471	3,730	3,730
Receipts in advance	78,395	73,222	105,521	112,107
Amounts due to related companies	82	101	19,082	19,127
Amount due to directors	10,422	9,421	9,784	13,482
Bank borrowings	68,565	116,907	77,127	86,556
Obligation under finance leases	93	—	893	1,019
Taxation payable	909	3,975	5,441	9,381
	231,713	285,604	303,827	336,527
Total liabilities	235,959	289,562	331,177	416,394
<b>Total equity and liabilities</b>	<b>266,816</b>	<b>357,618</b>	<b>436,178</b>	<b>527,144</b>

### Property, plant and equipment

Our property, plant and equipment mainly comprised plant and machinery for our production and leasehold improvements (mostly for our retail shops), the aggregate net book value of which accounted for 86.8%, 87.0% and 88.3% of the total net book value of our property, plant and equipment as at 31 December 2011, 2012 and 2013, respectively.

## FINANCIAL INFORMATION

### Inventories

The table below sets out the breakdown of our inventories as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Inventories</b>			
Raw materials	9,765	7,543	12,291
Work-in-progress	4,664	4,443	6,510
Finished goods	6,758	11,174	11,067
	21,187	23,160	29,868
Provision for obsolete inventories	(183)	(660)	(493)
	<b>21,004</b>	<b>22,500</b>	<b>29,375</b>

We review the level of raw materials and packaging materials regularly and make specific provision for inventories which are expected not to be used within the next 12 months.

The table below sets out the ageing analysis of our inventories as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	18,389	21,351	26,876
91–180 days	1,266	485	2,044
181–365 days	548	413	338
Over 365 days	801	251	117
	<b>21,004</b>	<b>22,500</b>	<b>29,375</b>

The table below sets out our average inventory turnover days for the years indicated.

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Average inventory turnover days ( <i>Note</i> )	31.6	34.9	36.7

*Note:* Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales for that year, multiplied by 365 days.

Given the short production lead time for both our Fresh Products and Long Shelf-life Drinks and the short shelf-life of our Fresh Products, we have a relatively low inventory turnover days of around 30 to 40 days. Because of the short shelf life of our Fresh Products which are mostly sold at our retail shops, the inventory turnover days for our Direct Sales is typically shorter than that for our Indirect Sales which mostly represents the sales of our Long Shelf-life Drinks with a much longer shelf life. During the Track Record Period, our average inventory turnover days recorded a slight increase from

## FINANCIAL INFORMATION

approximately 32 days for 2011 to approximately 37 days for 2013. The increase was mainly attributable to the higher rate of increase in our Indirect Sales (which recorded a CAGR of 22.3% from 2011 to 2013 compared to a CAGR of our Direct Sales of 13.4% for the same period).

Up to the Latest Practicable Date, HK\$27.9 million (or 94.8%) of our inventories as at 31 December 2013 had been utilised or sold.

### Trade receivables

Most of our Direct Sales are on cash basis whereas our Indirect Sales are mostly on open account. Customers of our Indirect Sales include key accounts, other third party retailers and distributors. The credit term granted to our key accounts, other third party retailers and distributors generally ranges from 30 to 105 days. We recorded insignificant amount of provision for impairment of trade receivables of HK\$1.5 million, HK\$1.4 million and HK\$1.7 million for 2011, 2012 and 2013, respectively. The table below sets out the ageing analysis of our trade receivables as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	23,408	23,462	31,585
31 to 90 days	18,592	18,127	27,042
Over 90 days	7,531	7,656	7,787
	49,531	49,245	66,414

The table below sets out our average trade receivables turnover days for the years indicated.

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Average trade receivables turnover days ( <i>Note</i> )	105.6	105.8	98.7

*Note:* Given that our Direct Sales are mostly on cash basis, our average trade receivables turnover days is calculated as the average of the beginning and ending trade receivables for the year, divided by our Indirect Sales for that year, multiplied by 365 days.

During the Track Record Period, our average trade receivables turnover days remained stable despite the growth in our Indirect Sales.

Up to the Latest Practicable Date, approximately HK\$66.2 million, or 99.6%, of our trade receivables as at 31 December 2013 of HK\$66.4 million had been settled.

## FINANCIAL INFORMATION

### Prepayments, deposits and other receivables

The table below sets out a summary of our prepayments, deposits and other receivables as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current portion</b>			
Prepayments	3,778	7,105	1,718
Rental deposits and other deposits	16,659	15,594	14,094
	20,437	22,699	15,812
<b>Current portion</b>			
Prepayments	3,262	2,989	6,517
Payment into court for legal case	550	550	550
Rental deposits and other deposits	4,259	8,418	14,044
Value-added tax recoverable	3,192	5,682	4,965
Other receivables	2,573	2,284	4,950
<b>Total</b>	<b>13,773</b>	<b>19,923</b>	<b>31,026</b>

Our prepayments, deposits and other receivables mainly comprised rental deposits and other deposits for our retail shops, the balance of which accounted for approximately 61.2%, 56.3% and 60.1% of our prepayments, deposits and other receivables as at 31 December 2011, 2012 and 2013, respectively. The increase in the non-current portion of prepayments in 2012 was mainly due to the prepayments for the deposits made for machinery and equipment which are expected to be delivered after 12 months, which amount became part of the current portion of prepayments as at 31 December 2013. The payment into court for legal proceedings of HK\$550,000 as at 31 December 2013 represented the money paid into the High Court of Hong Kong in relation to legal proceedings, which is pending settlement, between our Group and the assignee of the assets of a transportation and storage service provider which has been wound-up. The increase in other receivables in 2013 was mainly due to the deposits paid for machinery and equipment for the Suzhou plant.

### Trade and bill payables

Our trade and bill payables mainly represented amounts due to our suppliers. The credit term granted to us by our suppliers generally ranges from 30 to 60 days. The table below sets out an ageing analysis of our trade and bill payables as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	19,596	21,112	33,564
31 to 60 days	5,614	6,631	438
61 to 90 days	2,660	2,877	75
Over 90 days	1,587	2,518	786
	29,457	33,138	34,863

## FINANCIAL INFORMATION

The table below sets out our average trade payables turnover days for the years indicated.

	Year ended 31 December		
	2011	2012	2013
Average trade and bill payables turnover days (Note)	59.9	50.3	48.1

Note: Average trade payables turnover days is calculated as the average of the beginning and ending trade and bill payables for the year, divided by the cost of sales for that year, multiplied by 365 days.

Our trade and bill payables turnover days remained relatively stable during the Track Record Period.

Up to the Latest Practicable Date, HK\$34.3 million, or 98.3%, of our trade and bill payables as at 31 December 2013 of HK\$34.9 million had been settled.

### Accruals and other payables

The table below sets out the breakdown of our accruals and other payables as at the relevant balance sheet dates indicated.

	As at 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals for employee benefit expenses	14,296	18,365	19,246
Accruals for marketing and promotional expenses	4,689	5,069	2,933
Accruals for sales rebate	1,141	1,048	994
Rental and other store expenses payable	11,063	11,836	11,192
Office and utilities expenses payable	3,688	3,676	3,057
Deferred revenue	271	290	332
Other accruals and other payables	7,634	7,085	9,632
	42,782	47,369	47,386

Our accruals and payables mainly comprised accruals for employee benefit expenses (mainly salaries and bonuses), rental and other store expenses payable and office and utilities expenses payable, the aggregate balance of which accounted for 67.9%, 71.5% and 70.7% of our accruals and payables as at 31 December 2011, 2012 and 2013, respectively. The significant increase in accruals for employee benefit expenses as at 31 December 2012 compared that as at 31 December 2011 was partly attributable to increase in headcount during 2012 (which increased from 1,128 as at 31 December 2011 to 1,239 as at 31 December 2012) and partly attributable to the higher staff bonuses for 2012. The accruals for employee benefit expenses continued to increase as at 31 December 2013 which increase was in line with the increase in our headcount during the year (which increased from 1,239 as at 31 December 2012 to 1,327 as at 31 December 2013). The balances of our rental and other store expenses payable and office and utilities expenses payable remained fairly stable throughout the Track Record Period. Other accruals and other payables mainly represented business tax payable, value-added tax payable, amount payable to Mr. Wong and miscellaneous items. Accruals for marketing and promotional expenses as at 31 December 2013 dropped by HK\$2.1 million as compared to that as at 31 December 2012, which decrease was mainly due to settlement of



## FINANCIAL INFORMATION

the expenses prior to year end. The increase in other accruals and other payables of HK\$2.5 million as at 31 December 2013 as compared to that as at 31 December 2012 was mainly due to the increase in provision mainly for transportation services fee.

### Receipts in advance

We sell pre-paid coupons and membership cards with stored value to our customers who can redeem them for our products in our retail shops. The paper coupons we issue in Hong Kong generally have a validity period ranging from seven to 12 months from date of purchase, and stored value in the pre-paid membership cards issued in Hong Kong can be redeemed within two years from the date of issuance or the date of the last transaction, whichever is later. We also offer electronic coupons for certain products which have validity periods of six months or twelve months. To comply with the relevant PRC laws, the expiry date for our coupons is three years and there is no expiry date for value stored in membership cards issued in China. Prepayments made by our customers for such coupons and membership cards represent advances from customers, which are recorded as liabilities in our financial statements as receipts in advance, and revenue is only recognised when our customers redeem the coupons or use the balance in their pre-paid membership cards for our products. Receipts in advance from such prepayment from our customers entitle them to redeem our products and we are not required to settle such liabilities in cash. We normally plan our production to meet the expected cash sales and the expected redemption. Any utilised prepayments will be fully recognised as our income upon expiry.

Movements on our receipts in advance during the Track Record Period are set out below.

	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January</b>	49,438	78,395	73,222
Sales of pre-paid coupons and credits during the year	187,061	196,539	245,775
Revenue recognised upon redemption of products by customers	(154,281)	(189,346)	(203,248)
Revenue recognised upon expiry of pre-paid coupons and credits	(3,848)	(12,411)	(10,306)
Exchange differences	25	45	78
<b>At 31 December</b>	<b>78,395</b>	<b>73,222</b>	<b>105,521</b>

In 2011, we increased our effort in promoting sales of pre-paid coupons and membership cards, resulting in a high sales amount of HK\$187.1 million. Since there is a time lag between the sales of pre-paid coupons and membership cards and the redemption by customers, the redemption amount in 2011 was much lower than the amount of such sales. As a result, the balance of our receipts in advance increased from HK\$49.4 million at beginning of 2011 to HK\$78.4 million at end of 2011.

In 2012, the sales of pre-paid coupons and membership cards amount was similar to that for 2011. The redemption amount was also similar to the sales amounts. With the increase in forfeited income, the balance of our receipts in advance as at 31 December 2012 of HK\$73.2 million was slightly lower compared to that of HK\$78.4 million as at 31 December 2011.

In 2013, we again increased our effort in promoting sales of pre-paid coupons and membership cards, resulting in a high sales amount of HK\$245.8 million. Similarly to the situation in 2011, redemption lagged behind sales of pre-paid coupons and membership cards. As a result, the balance of our receipts in advance significantly increased from HK\$73.2 million at 31 December 2012 to HK\$105.5 million as at 31 December 2013.

## FINANCIAL INFORMATION

As at 31 December 2013, we had receipts in advance of HK\$105.5 million, comprising HK\$77.5 million of prepayment by our customers for coupons and HK\$28.0 million of prepayment as stored values in membership cards. In respect of the HK\$77.5 million receipts in advance for coupons, HK\$73.6 million will expire within 12 months (by the end of 2014) and HK\$3.9 million will expire between 12 months and 24 months (by the end of 2015). Of the HK\$28.0 million receipts in advance for stored values in membership cards as at 31 December 2013, HK\$22.9 million were stored value in the pre-paid membership cards issued in Hong Kong, which can be redeemed within two years following the date of issuance or the date of last transaction, whichever is later; and HK\$5.1 million were stored value in the pre-paid membership cards issued in China, which have no expiry date, pursuant to the relevant PRC laws.

The balance of our receipts in advance is to a lesser extent affected by the amount of expired coupons and membership cards.

Please see the section “Financial Information — Coupon and membership card sales” of this prospectus for further details on our coupon and membership cards sales and forfeited income.

### Amounts due from/(to) related companies

The table below sets out a summary of the amounts due from related companies at the relevant balance sheet dates indicated.

	As at 31 December		
	2011	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Balance included in current portion</b>			
— Trade			
— Action Rich	479	772	—
— Non-trade			
— HFT Industrial	819	13,196	41,827
— Others	224	856	385
	<u>1,522</u>	<u>14,824</u>	<u>42,212</u>
<b>Balance included in non-current portion</b>			
— Loan advance to:			
— Action Rich	5,880	5,880	—
— HFT Industrial	—	77,069	61,655
	<u>5,880</u>	<u>82,949</u>	<u>61,655</u>

The significant increase in the amounts due from related companies as at 31 December 2012 compared to that as at 31 December 2011 was mainly attributable to the advance to HFT Industrial of HK\$89.4 million during 2012 to partially finance the acquisition of Taclon by HFT Industrial. During 2013, we further advanced HK\$13.2 million to HFT Industrial to finance Taclon’s acquisition of plant and machinery and the construction and renovation and leasehold improvements of the Tai Po production facility. Of the total amount advanced to HFT Industrial as at 31 December 2013, an amount of HK\$41.8 million is repayable within one year and the remaining balance of HK\$61.7 million is repayable after one year. Amounts due from related companies other than HFT Industrial were insignificant throughout the Track Record Period and all such amounts have been fully settled in March 2014.

## FINANCIAL INFORMATION

Current portion of amounts due from related companies are unsecured, interest-free and repayable in demand. Non-current portion of amounts due from related companies are unsecured and bear interest of 5% per annum.

The table below sets out a summary of the amounts due to related companies at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance included in current portion			
— Non-trade			
— Sky Kingdom Properties Ltd	8	8	8
— AP Logistics	74	93	—
— Action Rich	—	—	19,074
	<u>82</u>	<u>101</u>	<u>19,082</u>

All the amounts due to our related companies as at 31 December 2013 were fully settled in June 2014.

### **Amounts due from/(to) directors**

The table below sets out the amounts due from/(to) directors as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Amounts due from directors</b>	<u>31,773</u>	<u>35,068</u>	<u>43,338</u>
<b>Amounts due to directors</b>	<u>(10,422)</u>	<u>(9,421)</u>	<u>(9,784)</u>

The amounts due from/(to) directors during the Track Record Period were unsecured, interest-free and repayable on demand. All the amounts due from/(to) directors have been fully settled in June 2014.

## FINANCIAL INFORMATION

### Bank borrowings

The table below set out the aggregate amount of our bank borrowings as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts	16,743	20,466	7
Bank loans:			
Portion due for repayment within 1 year	27,447	42,807	77,120
Portion due for repayment after 1 year			
— Containing a repayment on demand clause	24,375	53,634	—
— Without repayment on demand clause	—	—	23,029
	<u>24,375</u>	<u>53,634</u>	<u>23,029</u>
	<u>68,565</u>	<u>116,907</u>	<u>100,156</u>

Our bank borrowings consist of both secured and unsecured facilities. During the Track Record Period, our bank borrowings carried variable interest rates. The weighted average interest rates were 5.3% 5.5% and 4.1% as at 31 December 2011, 2012 and 2013, respectively.

As at 31 December 2011, 2012 and 2013, our bank borrowings amounted to HK\$68.6 million, HK\$116.9 million and HK\$100.2 million, respectively.

Our bank borrowings increased significantly from HK\$68.6 million as at 31 December 2011 to HK\$116.9 million as at 31 December 2012, which increase was primarily attributable to the additional bank borrowings which was mostly advanced to HFT Industrial to partially finance the acquisition of Taclon by HFT Industrial in April 2012.

Our bank borrowings as at 31 December 2013 remained relatively stable as compared to that as at 31 December 2012.

### Operating lease commitments and capital commitments

#### Operating lease commitments

Operating lease payments represent rentals payable by us for our retail shops, office premises, production facilities and storage spaces. The table below sets out our operating lease commitments under non-cancellable operating leases as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than 1 year	73,074	79,026	65,661
Later than 1 year but not later than 5 years	96,672	75,488	61,036
	<u>169,746</u>	<u>154,514</u>	<u>126,697</u>

## FINANCIAL INFORMATION

The lease rentals of certain of our retail shops are based on the higher of a minimum guaranteed rental or a sales-level based rental and the minimum guaranteed rental has been used to arrive at the above commitments.

### **Capital commitments**

The table below sets out our capital expenditure contracted but not yet incurred and provided for as at the relevant balance sheet dates indicated.

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for property, plant and equipment	4,872	1,316	3,441

As at the Latest Practicable Date, our Group had capital commitments of HK\$10.6 million, which mainly represented the amount of expenditure for purchase of property, plant and equipment by Taclon contracted but not provided for.

### **INDEBTEDNESS**

As at 30 April 2014, being the latest date for the purpose of liquidity disclosure in this prospectus, we had outstanding indebtedness of HK\$184.8 million, consisting of bank borrowings of HK\$162.0 million, obligation under finance lease of HK\$3.6 million and an amount due to a related company of HK\$19.1 million. The bank borrowing and the obligation under finance lease of HK\$125.7 million in aggregate were personally guaranteed by Mr. Kwan, Mr. PS Tse, Mr. PT Tse and Ms. Wong. Bank borrowings of HK\$40.0 million were secured by the leasehold land and buildings held by Taclon and corporate guarantees jointly executed by HFT Industrial and Aqua Pure. Except for the bank borrowing of HK\$26.0 million and HK\$42.2 million which is repayable between 1 and 2 years and between 2 and 5 years, respectively, all the remaining indebtedness is repayable within the coming 12 months. As at 30 April 2014, our Group had banking facilities of approximately HK\$232 million in aggregate in which HK\$165.6 million has been drawn down.

Save as disclosed above and otherwise in this prospectus, as at 30 April 2014, being the latest practicable date for us to ascertain such information prior to printing of prospectus, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, pledges, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors confirm that (i) save for the increase in bank borrowings of HK\$61.8 million as at 30 April 2014 as compared to 31 December 2013 which increase was mainly due to the consolidation of Taclon into our Group, there has not been any material change in our indebtedness since 31 December 2013 and up to 30 April 2014, being the latest practicable date for us to ascertain such information prior to printing of prospectus; (ii) the bank loans, finance lease and bank facilities are subject to the standard banking conditions; (iii) our Group has not received any notice from the bank indicating that it might withdraw or downsize the bank loans and bank facility; and (iv) there was no material default in payment of our trade and non-trade payables and bank borrowings, nor did we breach any relevant finance covenants, during the Track Record Period. Our Directors have also confirmed that we do not have any plan to raise material external debt financing as at the Latest Practicable Date.

## FINANCIAL INFORMATION

### CONTINGENT LIABILITIES

As at the Latest Practicable Date, save as disclosed in “Business — Legal Proceedings — Litigations in relation to Taclon”, we did not have any material contingent liabilities or guarantees, and we are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us.

### FINANCIAL RATIOS

The table below sets forth our key financial ratios for the years or as at the dates indicated.

	Year ended/as at 31 December		
	2011	2012	2013
Return on equity <sup>(1)</sup>	22.8%	53.7%	33.7%
Return on total assets <sup>(2)</sup>	2.6%	10.1%	7.9%
Current ratio <sup>(3)</sup>	0.82	0.72	1.02
Net debt to equity ratio <sup>(4)</sup>	N/A	0.79	0.26
Gearing ratio <sup>(5)</sup>	2.24	1.75	1.20

*Notes:*

1. Profit attributable to equity holders for the year divided by total equity attributable to equity holders.
2. Profit attributable to equity holders for the year divided by total assets.
3. Total current assets divided by total current liabilities.
4. Net debt divided by total equity attributable to equity holders. Net debt is defined as interest-bearing bank and other debts incurred not in the ordinary course of business minus cash and cash equivalents (including restricted cash).
5. Total debt divided by total equity attributable to equity holders. Total debt is defined to include interest-bearing bank borrowing and other debts incurred not in the ordinary course of business.

### Return on equity

Our return on equity increased from 22.8% for 2011 to 53.7% for 2012 primarily due to the significant improvement in our profit attributable to shareholders (which increased over five times from HK\$7.0 million for 2011 to HK\$36.0 million for 2012) while our equity attributable to owners as at 31 December 2012 only increased by about 2.2 times as compared to our equity attributable to owners as at 31 December 2011. In 2013, we recorded a drop in our profit attributable to shareholders to HK\$34.5 million, which decrease was due to the recognition of listing-related expenses of HK\$5.9 million during the year. Coupled with the increase in our equity attributable to owners (as a result of the retained profits), our return on equity decreased from 53.7% for 2012 to 33.7% for 2013.

### Return on total assets

Our return on total assets increased from 2.6% for 2011 to 10.1% for 2012. Similar to our return on equity, the increase in our return on total assets was primarily due to the significant improvement in our profit attributable to shareholders (which increased over five times from HK\$7.0 million for 2011 to HK\$36.0 million for 2012) while our total assets as at 31 December 2012 only increased by about 34% as compared to our total assets as at 31 December 2011. Our return on total assets for 2013 decreased to 7.9% mainly because of the drop in our profit attributable to shareholders as a result of the recognition of listing-related expenses of HK\$5.9 million during the year.

## FINANCIAL INFORMATION

### Current ratio

Our current ratio decreased from 0.82 as at 31 December 2011 to 0.72 as at 31 December 2012 primarily because of the increase in our short-term bank borrowings which funds was advanced to HFT Industrial to partially finance its acquisition of Taclon in April 2012. Our current ratio as at 31 December 2013 improved to 1.02, which improvement was primarily due to a significant increase of HK\$102.2 million in our total current assets (resulting from the increase in (i) current portion of amounts due from related companies; and (ii) trade receivables and cash balances arising from the growth in our revenue) while our current liabilities only recorded a slight increase of HK\$18.2 million during the year.

### Net debt to equity ratio

As at 31 December 2011, our cash and cash equivalent balance (including restricted cash) exceeded our total interest-bearing debts. As a result of an increase in our bank borrowings in 2012, which increase was mainly due to the raising of bank loans to finance the acquisition of Taclon by HFT Industrial, we had a net debt to equity ratio of 0.79 as at 31 December 2012. As a result of the cash generated from our operations and the increase in our equity arising from the retention of net profits for 2013, our net debt to equity ratio dropped to 0.26 as at 31 December 2013.

### Gearing ratio

Our gearing ratio as at 31 December 2011 was 2.24. Despite the increase in our interest-bearing bank borrowings in 2012, our gearing ratio as at 31 December 2012 dropped to approximately 1.75 because of an increase in our total equity as a result of the retention of the net profits we generated during the year. Our gearing ratio as at 31 December 2013 further dropped to approximately 1.20 because of a further increase in our total equity attributable to owners as result of the retention of the net profits we generated during the year.

### LISTING-RELATED EXPENSES

The total listing-related expenses are estimated to be approximately HK\$34.0 million. In 2013, we incurred expenses of HK\$7.8 million in connection with the Global Offering, of which HK\$5.9 million are accounted for as our administrative expenses for 2013 with the remaining amount of HK\$1.9 million recorded as prepayment in the accounts. By the completion of the Global Offering, we expect to further incur listing-related expenses of approximately HK\$26.2 million, among which an estimated amount of approximately HK\$15.6 million is to be recognised as our administrative expenses and the remaining estimated listing-related expenses is expected to be charged to equity upon the Listing. Such expenses are expected to be charged for the year ending 31 December 2014.

### WORKING CAPITAL CONFIRMATION

Our Directors are of the opinion that, taking into account the financial resources available to our Group presently, including our operating cash flow, the available banking facilities and the net proceeds available to us from the Global Offering, our Group has sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

Even though our Group had net current liabilities as at 31 December 2011 and 2012, our Directors, having reviewed our cash flow projections, are of the view that we can meet the working capital requirements for at least the next 12 months from the date of this prospectus for the reasons below; and the Sole Sponsor concurs with our Directors' view on such basis.

## FINANCIAL INFORMATION

Included within net current (liabilities)/assets were receipts in advance of HK\$78.4 million, HK\$73.2 million and HK\$105.5 million and bank borrowings of HK\$24.4 million, HK\$53.6 million and nil due for repayment after 1 year but within 5 years which contain repayable on demand clause as at 31 December 2011, 2012 and 2013 respectively. Certain of the bank borrowings as aforementioned were used for financing the non-current amounts due from related companies of HK\$5.9 million, HK\$82.9 million and HK\$61.7 million as at 31 December 2011, 2012 and 2013 respectively.

In preparing the combined financial information, our Directors have taken into account all information that could reasonably be expected to be available, and consider that the receipts in advance are not expected to be settled in cash under normal business circumstances, and that the relevant banks will not exercise their discretion to demand immediate repayment but allow such bank borrowings to be repaid in accordance with the scheduled dates set out in the relevant agreements.

Excluding the impact of the receipts in advance and bank borrowings as aforementioned which are not expected by our Directors to be settled in cash or repaid within 12 months, our Group's current assets would exceed our current liabilities by HK\$60.4 million, HK\$47.8 million and HK\$110.4 million as at 31 December 2011, 2012 and 2013, respectively. Our Directors consider our Group has sufficient financial resources in the coming twelve months to meet our financial obligations as and when they fall due.

Our Directors confirm that we had not have any material defaults in payment of trade and non-trade payables, and bank borrowings or breaches of financial covenants during the Track Record Period.

### RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in Note 27 to the Accountant's Report of our Group in Appendix 1A to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and did not distort our results of operations during the Track Record Period.

For a discussion of related party transactions, please see Note 27 to the Accountant's Report of our Group as contained in Appendix 1A to this prospectus.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at Latest Practicable Date, we have not entered into any material off-balance sheet transaction except as disclosed in the paragraph "Discussion of Certain Key Balance Sheet Items — Operating Lease Commitments and Capital Commitments — Capital Commitments" above in this section.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

In the normal course of business, we are exposed to various types of market risks including the followings:

#### Foreign exchange risk

Foreign exchange risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of change in foreign currency exchange rates.

Our Group operates mainly in Hong Kong and 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 and the United States dollar. If Renminbi as at



## FINANCIAL INFORMATION

31 December 2011, 2012 and 2013 had strengthened/weakened by 5% against Hong Kong dollar with all variables held constant, our pre-tax profit for the years would have been HK\$9,000, HK\$170,000 and HK\$275,000 higher/lower, respectively.

During the Track Record Period, we have not hedged our foreign exchange risk.

### Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates.

As at 31 December 2011, 2012 and 2013, we had interest-bearing borrowings of HK\$68.6 million, HK\$116.9 million and HK\$100.2 million respectively which carried variable interest rates. We are exposed to risk of changes in market interest rates. If interest rates as at 31 December 2011, 2012 and 2013 had been 50 basis points higher/lower and all other variable were held constant, our Group's pre-tax profit for the years would have been HK\$41,000, HK\$245,000 and HK\$262,000 higher/lower, respectively.

During the Track Record Period, we have not hedged our interest rate risk.

### Credit risk

Credit risk of our Group mainly arises from trade receivables from our customers and the risk of financial loss if a customer or counterparty to a financial instrument (including amounts due from related parties and bank balances) fails to meet its contractual obligations.

As at 31 December 2011, 2012 and 2013, our top five customers accounted for 16%, 15% and 15% respectively of our trade receivables. We have set up long-term co-operative relationship with these customers. In view of the history of business dealings with these customers and the sound collection history of the receivables from them, we believe there is no material credit risk inherent in our outstanding receivable balances due from these customers.

We consider the credit risk relating to our bank balances is limited because the counterparties are leading and reputable banks which are assessed as having low credit risk. All amounts due from related parties as at 31 December 2013 have been subsequently fully settled in March 2014.

### Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due.

We maintain liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that we consider appropriate and long term financing including long-term borrowings are also considered in our capital structure. We aim to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable us to continue our business.

### DIVIDEND POLICY

We declared and paid dividends of HK\$7 million in 2011. We have not declared or paid any dividends in 2012 or 2013. On 11 June 2014, we have declared an interim dividends for 2014 of HK\$40 million, which amount have been fully paid in June 2014.

## **FINANCIAL INFORMATION**

Our Group currently does not have a fixed dividend policy and the declaration, payment and amount of any future dividends will be subject to our discretion. The declaration, payment, any future dividends (including the amount) will depend on our financial condition, results of operation, level of cash, statutory and regulatory restrictions in relation thereto, future prospects, and other factors that our Directors may consider relevant. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of its plans or at all. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Dividends may be paid only out of our Group's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our Group's operation.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2013, our Company had no distributable reserve available for distribution to our Shareholders.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that, up to 23 June 2014, being the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2013, being the date on which the latest audited combined financial statements of our Group were made up, and there is no event since 31 December 2013 which would materially affect the information shown in the Accountant's Report of our Group set out in Appendix IA to this prospectus.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that as at the Latest Practicable Date, there are no circumstances which, had our Group been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **FINANCIAL INFORMATION OF TACLON**

The principal assets of Taclon is a long-term leasehold for a two-storey production facility located in the Tai Po Industrial Estate, Tai Po, Hong Kong, together with the related plant and machinery located therein. Prior to the Taclon Acquisition, only approximately 7% of the gross floor area of the production facility was occupied by two water production lines, which was then used by Aqua Pure for its bottled water production business under the "Aqua Pure" brand. Upon the Taclon Acquisition, the Tai Po production facility will be used as our main production facility in Hong Kong, replacing our existing Tsuen Wan production facilities. For details on the background information on the Taclon Acquisition, please see the section "History and Development — Our Group Companies — Taclon Acquisition" in this prospectus.

The Directors considered that when our Group acquired Taclon in March 2014, it was not acquiring any business but was acquiring the long-term leasehold of the premises and the equipment located thereon through the acquisition of Taclon, which should thus be accounted for as an acquisition of asset.

## FINANCIAL INFORMATION

For the financial year ended 31 March 2012, nine months ended 31 December 2012 and financial year ended 31 December 2013, Taclon only received management fee from Aqua Pure and the related companies of Aqua Pure for recharging expenses incurred in relation to the water production business of Aqua Pure. Taclon did not provide any service to our Group and was not involved in the business of our Group during the Track Record Period.

Our Directors confirm that when Taclon was acquired from Independent Third Parties by Mr. PT Tse, Ms. Wong, Mr. Kwan, Mr. PS Tse and Dr. Szeto (through HFT Industrial) in April 2012, the intention was that the acquisition of Taclon, as property holding company of the Tai Po production premises, would be a strategic investment for a number of commercial reasons. In any event, there was no intention for our Group to expand into the bottled water business under the “Aqua Pure” brand and there was no intention that the bottled water business operated under the brand of “Aqua Pure” will form a part of our business. Our Directors consider that the bottled water business of Aqua Pure and our business were clearly delineated, with different customers and were operated separately by their respective staff, and the bottled water business did not form part of our business.

Due to the matters mentioned above and the fact that Taclon did not form part of our Group during the relevant period, Taclon is not included within the historical combined financial information of our Group contained in the Accountant’s Report and the HFT BVI’s acquisition of Taclon in March 2014 was not accounted for as a business combination under common control.

### Audit Qualification

In preparing the financial information of Taclon, the existing management of Taclon had not been able to satisfy the reporting accountant to Taclon, in complying all the necessary audit procedures, including but not limited to obtaining direct confirmations in respect of amounts due to ex-directors and the related parties. Due to such limitation on the scope of the audit arising thereon, the accountant’s report of Taclon is qualified by its reporting accountant. The amounts due to ex-directors and their related parties were transferred to HFT Industrial when HFT Industrial acquired Taclon from its previous owners in April 2012. HFT Industrial had confirmed, covenanted and undertaken to indemnify and keep fully indemnified Taclon in respect of the balances with Taclon’s ex-directors and their related parties and any liability related thereto or arising therefrom, and any other claims from the ex-directors and their related parties against Taclon, at any time after 27 April 2012. As such, we consider that such audit qualification is insignificant as it only affects those balances and the related elements making up the statements of comprehensive income, statements of changes in equity and statements of cash flows of Taclon for the year ended 31 March 2012 (“**FY March 2012**”) and the nine months ended 31 December 2012 (“**FY December 2012**”), but would not affect the financial information of Taclon for the year ended 31 December 2013 (“**FY December 2013**”) and it would not affect the financial results of our Group during or after the Track Record Period. Our Directors confirmed that Taclon’s audited accounts for FY March 2012, FY December 2012 and FY December 2013 prepared by its existing auditors for the purposes of complying with the Companies Ordinance requirements are not qualified.

The Accountant’s Report of Taclon setting out the basis for the qualified opinion is set out in Appendix IB to this prospectus.

## FINANCIAL INFORMATION

### Results of Operations

The table below sets forth, for the periods indicated, information relating to certain income and expense items included in the statements of comprehensive income of Taclon. Potential investors should read this section in conjunction with the Accountant's Report of Taclon contained in Appendix IB to this prospectus and not rely merely on the information contained in this section.

	<b>Year ended 31 March 2012</b>	<b>Nine months ended 31 December 2012</b>	<b>Year ended 31 December 2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other income	7,105,389	1,682,481	2,176,862
Other gains, net	37,015	79,074	318,053
Administrative expenses	(226,570)	(576,065)	(548,296)
Other operating expenses	<u>(3,391,478)</u>	<u>(1,681,293)</u>	<u>(1,979,534)</u>
<b>Operating profit/(losses)</b>	<b>3,524,356</b>	<b>(495,803)</b>	<b>(32,915)</b>
Finance costs	<u>(4,447,311)</u>	<u>(2,826,254)</u>	<u>(3,048,431)</u>
<b>Loss before income tax</b>	<b>(922,955)</b>	<b>(3,322,057)</b>	<b>(3,081,346)</b>
Income tax expense	<u>—</u>	<u>—</u>	<u>—</u>
<b>Loss and other comprehensive loss for the year/ period attributable to owners</b>	<b><u>(922,955)</u></b>	<b><u>(3,322,057)</u></b>	<b><u>(3,081,346)</u></b>

## FINANCIAL INFORMATION

The table below sets forth statements of financial position of Taclon as of the dates indicated.

	<b>As at 31 March</b>	<b>As at 31 December</b>	
	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land and land use right	8,128,353	7,954,174	15,361,997
Property, plant and equipment	27,723,097	27,650,560	43,583,747
	35,851,450	35,604,734	58,945,744
<b>Current assets</b>			
Prepayments, deposits and other receivables	146,000	280,722	103,030
Amounts due from related companies	11,911,086	15,052,730	21,730,174
Cash and cash equivalents	507	368,496	13,559,901
	12,057,593	15,701,948	35,393,105
<b>Total assets</b>	<b>47,909,043</b>	<b>51,306,682</b>	<b>94,338,849</b>
<b>Equity</b>			
Share capital	34,848,500	34,848,500	100,700,100
Accumulated losses	(98,343,324)	(101,665,381)	(104,746,727)
<b>Total shareholder's deficit</b>	<b>(63,494,824)</b>	<b>(66,816,881)</b>	<b>(4,046,627)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Amount due to a related company	—	69,500,822	7,157,494
Bank borrowings	—	—	35,833,333
	—	69,500,822	42,990,827
<b>Current liabilities</b>			
Accruals and other payables	38,918,935	1,801,056	1,582,540
Amounts due to related companies	1,444,722	46,821,685	49,645,442
Amounts due to ex-directors and their related parties	32,080,945	—	—
Bank borrowings	38,959,265	—	4,166,667
	111,403,867	48,622,741	55,394,649
<b>Total liabilities</b>	<b>111,403,867</b>	<b>118,123,563</b>	<b>98,385,476</b>
<b>Total equity and liabilities</b>	<b>47,909,043</b>	<b>51,306,682</b>	<b>94,338,849</b>
<b>Net current liabilities</b>	<b>(99,346,274)</b>	<b>(32,920,793)</b>	<b>(20,001,544)</b>
<b>Total assets less current liabilities</b>	<b>(63,494,824)</b>	<b>2,683,941</b>	<b>38,944,200</b>

## FINANCIAL INFORMATION

### Other income

The table below shows a breakdown of other income of Taclon by nature for the periods indicated.

	Year ended 31 March 2012 <i>HK\$</i>	Nine months ended 31 December 2012 <i>HK\$</i>	Year ended 31 December 2013 <i>HK\$</i>
Management fee income	1,000,000	1,682,481	2,176,862
Recharge of expenses	6,105,389	—	—
	7,105,389	1,682,481	2,176,862

For FY March 2012, FY December 2012 and FY December 2013, Taclon charged certain related companies of Taclon (“**Taclon Related Companies**”), none of which forms part of our Group under the Reorganisation, expenses incurred in relation to the water production business of Aqua Pure, one of the Taclon Related Companies. These management services were terminated in March 2014 and all loans due from Taclon Related Companies were fully settled upon the completion of the Taclon Acquisition.

### Other gains

Other gains of Taclon represented gains on disposal of property, plant and equipment during the relevant periods.

### Administrative and other operating expenses

Administrative and other operating expenses of Taclon mainly comprised:

- depreciation of property, plant and equipment (FY March 2012: HK\$1.0 million, FY December 2012: HK\$0.7 million, FY December 2013: HK\$1.1 million)
- employee benefit expenses (FY March 2012: HK\$1.1 million, FY December 2012: zero, FY December 2013: zero)
- rates and government rent (FY March 2012: HK\$0.5 million, FY December 2012: HK\$0.4 million, FY December 2013: HK\$0.5 million)

### Finance costs

Finance costs of Taclon in FY March 2012 represented bank loan interest. Finance costs of Taclon in FY December 2012 and FY December 2013 mainly represented interest charged on the amounts due to HFT Industrial (FY December 2012: HK\$2.7 million, FY December 2013: HK\$3.0 million).

### Profit/loss for the period

Loss of Taclon for FY March 2012, FY December 2012 and FY December 2013 was HK\$0.9 million, HK\$3.3 million and HK\$3.1 million, respectively. The increase in the losses of Taclon in FY December 2012 and FY December 2013, as compared to the loss in FY March 2012, was because of the decrease in the management fee income.

## FINANCIAL INFORMATION

### ***Leasehold land and land use right***

The leasehold land and land use right of Taclon represented the land premium paid in relation to the Tai Po facility. The addition of HK\$7.6 million leasehold land and land use right in 2013 represented the additional premium paid by Taclon to the lessor of its production facility located in the Tai Po Industrial Estate, Tai Po, Hong Kong, of which HK\$7.31 million is attributable to the additional use of the said premises for the production of health drinks, herbal jelly, seasonal pudding, rice, congee, soup and convenience food in addition to the previous permitted use for the manufacture of PET bottles, the distillation of water and putting such distilled water into bottles, and HK\$0.33 million is attributable to the increase of daily water consumption.

### ***Property, plant and equipment***

The property, plant and equipment of Taclon represented mainly the carrying value of our Tai Po production facility, the valuation report of which is set out in Appendix III to this prospectus. The increase in FY December 2013 was mainly due to construction in progress of HK\$16.5 million for renovating the infrastructure of the facility to cater for the installation of new plant and equipment.

### ***Prepayment, deposits and other receivables***

The amounts of prepayment, deposits and other receivables of Taclon mainly represented rental and other deposits.

### ***Amount due from related companies***

	<b>As at 31 March</b>	<b>As at 31 December</b>	
	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Balance due from related companies			
— Non Trade			
— Aqua Pure Distilled Water Company Limited	4,401,192	6,867,692	10,939,122
— Imperial Food Products Limited	984,934	326,216	367,476
— A.P. Logistics Co., Ltd	6,524,960	7,858,822	10,423,576
	11,911,086	15,052,730	21,730,174

The amount due from related companies of Taclon represented the amount of loans to certain Taclon Related Companies, which were non-trading in nature and were fully settled upon completion of the Taclon Acquisition.

### ***Cash and cash equivalents***

The increase in cash at bank of Taclon in FY December 2013 was due to the unutilised cash raised from a bank loan withdrawn during the relevant year for acquisition of production equipment.

### ***Accruals and other payables***

The amount as at 31 March 2012 mainly represented bank interest payable of HK\$34.4 million which was repaid in full from a loan raised from HFT Industrial in FY December 2012.

## FINANCIAL INFORMATION

### **Amounts due to related companies**

The following table set out the aggregate amount of the amounts due to related companies of Taclon as at the relevant balance sheet dates indicated.

	<b>As at 31 March</b>	<b>As at 31 December</b>	
	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Balance due to related companies included in current portion			
— Non Trade			
— Tees Beverage (H.K.) Ltd	(1,444,722)	(1,449,272)	(1,436,673)
— HFT Industrial	—	(38,430,868)	(41,772,980)
	(1,444,722)	(39,880,140)	(43,209,653)
— Loan advance and interest payable			
— HFT Industrial	—	(6,941,545)	(6,435,789)
	(1,444,722)	(46,821,685)	(49,645,442)
Balance due to related companies included in non-current portion			
— Loan advance			
— HFT Industrial	—	(69,500,822)	(7,157,494)
	—	(69,500,822)	(7,157,494)

The amounts due to related companies of Taclon mainly represented the amounts due to HFT Industrial. During FY December 2012, a bank loan and related interest of HK\$73.4 million was fully repaid by an amount raised from HFT Industrial, and the amounts of HK\$32.1 million due to ex-directors and their related parties were transferred to HFT Industrial when HFT Industrial acquired Taclon from its previous owners in April 2012. HFT Industrial had confirmed, covenant and undertaken to indemnify and keep indemnified fully Taclon in respect of and to the extent of the balances with Taclon's ex-directors and their related parties and any liability related thereto or arising therefrom, and any other claims from the ex-directors and their related parties against Taclon, at any time after 27 April 2012, in consideration of HFT Industrial taking the benefit of the amounts due from Taclon to its ex-directors and then related parties in the amount of approximately HK\$32.1 million. The amount due to HFT Industrial was reduced from HK\$114.9 million in FY December 2012 to HK\$55.4 million in FY December 2013 because part of the amount due to HFT Industrial was capitalised when it subscribed to a rights issue conducted by Taclon on 30 September 2013.



## FINANCIAL INFORMATION

### **Bank borrowings**

The table below sets out the aggregate amount of the bank borrowings of Taclon as at the relevant balance sheet dates indicated.

	<u>As at</u>	<u>As at 31 December</u>	
	<u>31 March</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Bank overdrafts	127,170	—	—
Bank loans:			
Portion due for repayment within 1 year	38,832,095	—	4,166,667
Portion due for repayment after 1 year but within 5 years	—	—	<u>35,833,333</u>
	<u>38,959,265</u>	<u>—</u>	<u>40,000,000</u>

The bank loans of HK\$39.0 million and interest payable of HK\$34.4 million of Taclon as at 31 March 2012 were fully repaid in FY December 2012. Bank loan in the amount of HK\$40 million was raised in FY December 2013 for purchase of production equipment and leasehold improvement.

### **Share capital**

Share capital of Taclon increased from HK\$34.8 million as at 31 December 2012 to HK\$100.7 million as at 31 December 2013 because Taclon conducted a rights issue during FY December 2013 raising HK\$65.9 million. Please see the section “History and Development — Our Group Companies — Taclon Acquisition” in this prospectus for details.

## FINANCIAL INFORMATION

### Cash Flows

The table below sets forth statements of cash flows of Taclon for the periods indicated.

	Year ended 31 March 2012 <i>HK\$</i>	Nine months ended 31 December 2012 <i>HK\$</i>	Year ended 31 December 2013 <i>HK\$</i>
<b>Cash flows used in operating activities</b>			
Net cash used in operations	(4,107,859)	(4,144,873)	(1,761,116)
Net cash flows used in operating activities	(4,107,859)	(4,144,873)	(1,761,116)
<b>Cash flows from investing activities</b>			
Payment for leasehold land	—	—	(7,640,060)
Purchase of property, plant and equipment	—	(676,542)	(15,709,306)
Proceeds from disposal of property, plant and equipment	37,015	79,074	318,053
Repayment from/(advance to) related companies	3,975,352	(1,459,163)	(4,500,582)
Net cash generated from/(used in) investing activities	4,012,367	(2,056,631)	(27,531,895)
<b>Cash flows from financing activities</b>			
Proceeds from new borrowings	—	—	40,000,000
Repayment of bank loans	—	(38,832,095)	—
Advances from related companies	—	80,139,919	3,342,112
Interest paid	(11,715)	(34,610,161)	(857,696)
Net cash (used in)/generated from financing activities	(11,715)	6,696,663	42,484,416
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year	(107,207)	495,159	13,191,405
Cash and cash equivalents at end of year	(19,456)	(126,663)	368,496
<b>Cash and cash equivalents at end of year</b>	<b>(126,663)</b>	<b>368,496</b>	<b>13,559,901</b>

### Net cash flows used in operating activities

During the periods indicated, Taclon had net cash flows used in its operation because Taclon made loss mainly due to settlement of accruals and payable and payment of administrative expenses.

### Net cash generated from/(used in) investing activities

The increase in the cash flows used in investing activities of Taclon in FY December 2013 was mainly due to payment for leasehold land and purchase of production equipment during the year. It is intended that Taclon's production facility in Tai Po Industrial Estate would be used as our Group's main production base replacing our Tsuen Wan facility upon its lease expiry. Therefore, the additional production equipment was purchased to expand the production capacity to cater for the expected expansion of our Group's business.

## FINANCIAL INFORMATION

### Net cash generated from/(used in) financing activities

During FY December 2012, HK\$80.1 million was raised by Taclon from HFT Industrial to repay HK\$73.4 million bank loans with interest. The net effect is increase in cash flow from financing activities of HK\$6.7 million. The increase in cash flow from financing activities of Taclon in FY December 2013 was mainly because a bank loan in the amount of HK\$40 million was raised for leasehold improvement and purchase of production equipment.

### PROPERTY INTERESTS AND PROPERTY VALUATION

A reconciliation of the net book value of the relevant property interests as at 31 December 2013 to their fair value as stated in Appendix III — Property Valuation to this prospectus is as follows:

	<i>HK\$'000</i>
Net book value of property interests of our Group as at 31 December 2013	
— Investment property	858
Less: property interests not included in the valuation	(858)
	—
 Additions for the period	
Taclon Acquisition:	
— Net book value of property interests of Taclon as at 31 December 2013	
— Leasehold land and land use right	15,362
— Building	26,335
	41,697
— Additions of property interest of Taclon for the period ended 31 March 2014	19,352
Depreciation/amortisation for the period	(204)
Adjusted net book value as at 31 March 2014	60,845
Valuation surplus as at 31 March 2014	93,355
Valuation as at 31 March 2014 as per Appendix III — Property Valuation to this prospectus	154,200

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS OF OUR GROUP

The following statement shows the unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company as at 31 December 2013 based on the audited combined net tangible assets attributable to equity holders of our Company as at 31 December 2013 as extracted from the Accountant's Report of our Group as set out in Appendix 1A to this prospectus and adjusted as follows:

	Audited combined net tangible assets attributable to owners of our Company as at 31 December 2013	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to owners of our Company as at 31 December 2013	Unaudited pro forma adjusted net tangible assets per share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on the Offer Price of HK\$1.00 per share	102,297	130,582	232,879	0.37
Based on the Offer Price of HK\$1.30 per share	102,297	176,560	278,857	0.44

*Notes:*

- (1) The audited combined net tangible assets attributable to owners of our Company as at 31 December 2013 is extracted from "Appendix 1A — Accountant's Report of our Group" to this prospectus, which is based on the audited combined net assets of our Group attributable to owners of our Company as at 31 December 2013 of approximately HK\$102,297,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.00 per share and HK\$1.30 per share, being low and high end of the indicative Offer Price range, after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Schemes, any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate and the Repurchase Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 632,000,000 Shares are in issue assuming that the Global Offering and the Capitalisation Issue have been completed on 31 December 2013, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Schemes, any shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate and Repurchase Mandate.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2013. In particular, the unaudited pro forma adjusted net tangible assets of our Group do not take into account the dividend of HK\$40 million declared by our Company in June 2014, which has been paid in full in June 2014 to the shareholders. The unaudited pro forma net tangible assets per share would have been HK\$0.31 and HK\$0.38 per share based on the Offer Price of HK\$1.00 and HK\$1.30 respectively, after taking into account the declaration of such dividend.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

Please see the section “Business — Our Strategies” in this prospectus for details of our strategies and future plans.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering after deducting underwriting fees and estimated expenses in connection with the Global Offering (the “**Net Proceeds**”), assuming an Offer Price of HK\$1.15 per Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, will be approximately HK\$147.7 million. We intend to apply the Net Proceeds as follows:

- (i) approximately HK\$52.2 million (representing 35.3% of the Net Proceeds) will be used for the opening of new retail shops, including:
- approximately HK\$6.4 million, HK\$24.0 million and HK\$12.8 million for opening around eight, 30 and 16 new retail shops in Hong Kong from the Listing Date to the end of 2014 and in 2015 and 2016, respectively;
  - approximately HK\$4.0 million for opening around ten new retail shops in Guangzhou in the coming twelve months; and
  - approximately HK\$5.0 million for opening around ten new retail shops in Shanghai in the coming twelve months.

Please see the section “Business — Our Strategies — Improve our sales and expand our market coverage in China” in this prospectus for details. We intend to finance the opening of the other 19 retail shops in Hong Kong in 2016 by internal resources or bank loans, or by the additional Net Proceeds if the Offer Price is fixed at a price higher than HK\$1.15, or if the Over-allotment Option is exercised, as set out below;

- (ii) approximately HK\$33.5 million (representing 22.7% of the Net Proceeds) will be used for promotion and marketing, such as:
- promotion campaigns with our brand spokespersons including advertisement on television and public transportation, and other promotional events in Hong Kong and China;
  - enhancement of our online promotion channels; and
  - conducting joint promotion activities with our business partners;
- (iii) approximately HK\$5.4 million (representing 3.7% of the Net Proceeds) will be used for improving our information system, including upgrading of our POS system and membership card system;

## FUTURE PLANS AND USE OF PROCEEDS

- (iv) approximately HK\$12.3 million (representing 8.3% of the Net Proceeds) will be used for recruitment of new staff, including:
- experienced sales and marketing staff for our expansion and improvement of our sales; and
  - a team of operational staff to enhance our operation efficiency;
- (v) approximately HK\$9.9 million (representing 6.7% of the Net Proceeds) will be used for the expansion of our distribution network for Indirect Sales in China, such as:
- setting up regional sales offices in Eastern China and other regions in China; and
  - operating such regional offices in 2014 and 2015;
- (vi) approximately HK\$19.6 million (representing 13.3% of the Net Proceeds) will be used for the repayment of part of the bank borrowing which was drawn down by Taclon in July 2013 in the amount of HK\$40 million repayable by monthly instalments for a term of five years at an interest rate of 5.25% per annum which has been used for setting up our production facility in Tai Po, details of which are set out in the section “Business — Production — Production Facilities” in this prospectus; and
- (vii) approximately HK\$14.8 million (representing 10.0% of the Net Proceeds) will be used for working capital and other general corporate purposes of our Group.

If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK\$1.30 per Share, the Net Proceeds will increase by approximately HK\$23.0 million. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$1.00 per Share, the Net Proceeds will decrease by approximately HK\$23.0 million.

In the event that the Offer Price is fixed at a price higher than HK\$1.15, we intend to apply the additional Net Proceeds in the following order: first, the opening of the other new retail shops in Hong Kong in 2016, as set out in (i) above; and second, if there is surplus Net Proceeds after application towards the opening of new retail shops in 2016, the expansion of our distribution network for Indirect Sales in China as set out in (v) above. In the event that the Offer Price is fixed at a price lower than HK\$1.15, we intend to reduce the Net Proceeds used for the opening of retail shops in 2016 and/or the repayment of the bank borrowing as set out in (i) and (vi) above respectively, as considered appropriate by our Directors.

If the Over-allotment Option is exercised in full, we estimate that the additional Net Proceeds from the offering of the additional Shares issued pursuant to the exercise of the Over-allotment Option will be approximately HK\$19.6 million if the Offer Price is fixed at HK\$1.00 (being the low-end of the indicative Offer Price range) and will be approximately HK\$25.4 million if the Offer Price is fixed at HK\$1.30 (being the high-end of the indicative Offer Price range). Any additional Net Proceeds from the exercise of the Over-allotment Option will be allocated to the opening of new retail shops in Hong Kong in 2016 and/or the expansion of our distribution network of Indirect Sales in China in accordance with the priority set out in the preceding paragraph.

## UNDERWRITING

### HONG KONG UNDERWRITERS

The Hong Kong Underwriters are:

Crosby Securities Limited  
Shenyin Wanguo Capital (H.K.) Limited  
DBS Asia Capital Limited  
Halcyon Securities Limited

### INTERNATIONAL UNDERWRITERS

The International Underwriters are expected to be:

Crosby Securities Limited  
Shenyin Wanguo Capital (H.K.) Limited  
DBS Asia Capital Limited  
Halcyon Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on 20 June 2014. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to apply to purchase or procure applications to purchase the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. on the Listing Date.

##### **Grounds for termination**

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will be subject to termination with immediate effect by notice (orally or in writing) from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
  - (i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanction, withdrawal of trading privileges, strike, lock-out, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism); or

## UNDERWRITING

- (ii) any change or development involving a prospective change, or any event, circumstance or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting Hong Kong, China, the United States, the United Kingdom, the European Union as a whole or any other jurisdiction relevant to any member of our Group (“**Relevant Jurisdictions**”); or
- (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange; or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign (“**Authority**”)), New York (imposed at Federal or New York State level or other competent Authority), London, China, the European Union as a whole, or the Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (v) any new law or regulation or any event or circumstance resulting in a change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent Authority in or affecting any of the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union as a whole on China or any of the Relevant Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- (viii) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of our Company; or
- (x) the chairman, managing Director or general manager of our Company vacating his or her office; or



## UNDERWRITING

- (xi) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than any breach thereof by the Hong Kong Underwriters or the International Underwriters); or
- (xii) an Authority or a political body or organisation in any of the Relevant Jurisdictions of any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xiii) save as disclosed in this prospectus, the Application forms, the preliminary and final offering circulars relating to the International Offer Shares and any other document issued, given or used in connection with the offering and sale of the Offer Shares or otherwise in connection with the Global Offering, including all amendments or supplements thereto, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (xiv) a prohibition on our Company for whatever reason from offering, allotting, issuing, selling or delivering the Shares (including the Shares to be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xv) any adverse change or development involving a reasonably likely material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position, prospects or condition, financial or otherwise, or performance of our Group taken as a whole of any of the risks set out in the section "Risk Factors" in this prospectus; or
- (xvi) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xvii) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xviii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with our creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator:

- (1) has or will or may have a material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or

## UNDERWRITING

- (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
  - (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
  - (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (b) there has come to the notice of the Sole Global Coordinator:
- (i) that any statement contained in any of this prospectus or the Application Forms, the preliminary and final offering circulars relating to the International Offer Shares and any other document issued, given or used in connection with the offering and sale of the Offer Shares or otherwise in connection with the Global Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in any of this prospectus or the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions in any material respect; or
  - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus or the Application Forms, the preliminary and final offering circulars relating to the International Offer Shares and any other documents issued, given or used in connection with the offering and sale of the Offer Shares or otherwise in connection with the Global Offering (including any supplement or amendment thereto); or
  - (iii) any event, act or omission which gives or is likely to give rise to any material liability of any of the indemnifying parties pursuant to the indemnities given under the Hong Kong Underwriting Agreement; or
  - (iv) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of our Group; or
  - (v) any breach of, or any event or circumstance rendering untrue, incorrect or misleading in any material respect, any of the warranties given under the Hong Kong Underwriting Agreement (other than any breach thereof by the Hong Kong Underwriters); or
  - (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to

## UNDERWRITING

customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

- (vii) our Company withdraws this prospectus (and/or any other offering document issued or used in connection with the Global Offering) or the Global Offering; or
- (viii) any expert named in “Appendix V — Statutory and General Information — G. Other Information — 7. Qualifications of experts” to this prospectus has withdrawn its consent to being named in any of this prospectus or the Application Forms or to the issue of any of this prospectus or the Application Forms; or
- (ix) that, as a result of material adverse and abrupt change in market conditions, any material order placed by any investor immediately before the Price Determination Agreement is entered into, has been withdrawn or cancelled, and the Sole Global Coordinator, in its sole and absolute discretion after due consideration, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering. For the avoidance of doubt, the right to terminate under this paragraph (ix) is exercisable only from 3:00 p.m. on the day immediately before the Listing Date to 8:00 a.m. on the Listing Date.

### **Undertakings to the Stock Exchange pursuant to the Listing Rules**

#### ***Undertakings by us***

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or any capitalisation issue, capital reduction or consolidation or sub-division of Shares, we will not, at any time within six months from the Listing Date, issue any further shares or other securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

#### ***Undertakings by our Controlling Shareholders***

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has jointly and severally undertaken to each of us, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or the Stock Borrowing Agreement, that he or it will not, and shall procure that any other relevant registered holder(s) of the Shares, any associates or companies controlled by him or it, any nominees or trustees holding the Shares in trust for him or it (as the case may be), will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge as security in favour of an authorised institution for a bona fide commercial loan) any of our Shares or securities in respect of which he or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (“**Parent Shares**”); or
- (b) in the period of a further six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect

## UNDERWRITING

of, any of the Parent Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be our controlling shareholder (as defined in the Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or it will:

- (a) if he or it pledges or charges any of our securities beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he or it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### ***Undertakings by our Company***

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that, and our Controlling Shareholders have agreed to procure that, except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Half-Year Period**”), our Company will not, and will procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any

## UNDERWRITING

securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or

- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). Further, in the event that, during the period of six months commencing on the date on which the First Half-year Period expires (the “**Second Half-Year Period**”), our Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

### ***Undertakings by our Controlling Shareholders, Dr. Szeto, Mr. PS Tse and Aolong***

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders, Dr. Szeto, Mr. PS Tse and Aolong has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, at any time during the First Half-Year Period:

- (a) it/he/she will not:
  - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, or any such other securities or any interest in any of the foregoing, as applicable) (the “**Relevant Shares**”) or any interest in any company or entity holding, directly or indirectly, any of the Relevant Shares (the “**Holding Entity**”); or
  - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or an interest in any Holding Entity; or
  - (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or

## UNDERWRITING

- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above;

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (b) it/he/she will not, during the Second Half-Year Period, enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it will cease to be a Controlling Shareholder (if applicable) of our Company; and
- (c) until the expiry of the Second Half-Year period, in the event that it/he/she enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it/he/she will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

### **Undertakings by Mr. Wong pursuant to a deed of lock-up undertaking**

Mr. Wong entered into a deed of lock-up undertaking dated 13 June 2014, pursuant to which he has undertaken to each of our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) that, he will and, will procure that none of his associates will, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Underwriters), at any time during the period commencing from the date of this deed and ending on, and including, the date that is three months from the Listing Date (the **"Three-Month Period"**):

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any of the Relevant Shares; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Shares;
- (c) enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or
- (d) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions described in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the Three-Month Period).

## UNDERWRITING

### **Indemnity**

We, our Controlling Shareholders and our executive Directors have agreed to indemnify the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us, our Controlling Shareholders or our executive Directors of the Hong Kong Underwriting Agreement.

### **The International Offering**

In connection with the International Offering, it is expected that our Company and our Controlling Shareholders (among others) will enter into the International Underwriting Agreement with the Sole Sponsor, the Sole Global Coordinator and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Offer Shares or procure purchasers to purchase such International Offer Shares.

We will grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require us to offer up to an aggregate of 23,700,000 additional Shares, together representing 15% of the number of Shares initially being offered under the Global Offering, at the Offer Price to solely cover over-allocations in the International Offering, if any.

Under the International Underwriting Agreement, our Company, our Controlling Shareholders and our executive Directors will agree to indemnify the International Underwriters against certain losses which they may suffer including losses as a result of certain claims or liabilities which might be incurred by the International Underwriters.

### **Underwriting commission and expenses**

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) will receive an underwriting commission equal to 3.0% on the aggregate Offer Price payable in respect of all of the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). The respective entitlements of the Hong Kong Underwriters to the underwriting commission will be paid as separately agreed between the Sole Global Coordinator and the Hong Kong Underwriters. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, our Company may, at its sole discretion, pay to the Sole Global Coordinator for its accounts an incentive fee.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$1.15 per Share (being the mid-point of the indicative Offer Price range of HK\$1.00 to HK\$1.30 per Share), the aggregate commissions and fees, together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering to be borne by us are estimated to amount to approximately HK\$34.0 million in aggregate.

## UNDERWRITING

### Hong Kong Underwriters' interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement or as otherwise disclosed in this prospectus, none of the Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Global Offering.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### Independence of the Sole Sponsor

Crosby Securities Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in the section “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the



## UNDERWRITING

Offer Shares). whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

### **RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in China.

## STRUCTURE OF THE GLOBAL OFFERING

### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. Crosby Securities Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange and the Sole Global Coordinator, Joint Lead Manager and Joint Bookrunner of the Global Offering.

The Global Offering initially consists of:

- (i) the Hong Kong Public Offering of 15,800,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in the paragraph “Hong Kong Public Offering” below in this section (including the Employee Preferential Offering of up to 1,580,000 Offer Shares as described in the paragraph “Employee Preferential Offering” below in this section); and
- (ii) the International Offering of 142,200,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up and to cease on or around, the last day of lodging applications under the Hong Kong Public Offering.

Eligible Employees may make an application for the Employee Reserved Shares on a **PINK** Application Form and, in addition, will be entitled to apply for Hong Kong Offer Shares under the Hong Kong Public Offering but may not apply for or indicate an interest for International Offer Shares under the International Offering. Such Eligible Employees will receive no preference as to entitlement or allocation in respect of such further applications for Hong Kong Offer Shares under the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and International Offering respectively may be subject to adjustment and, in the case of the International Offering only, the Over-allotment Option as set out in the paragraph “International Offering — Over-allotment Option” below in this section.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. Details of the underwriting arrangements are summarised in the section “Underwriting” in this prospectus.

## STRUCTURE OF THE GLOBAL OFFERING

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares pursuant to the Global Offering will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and such listing and permission not subsequently having been revoked prior to the commencement of dealing in our Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Friday, 27 June 2014 and in any event, not later than 12:00 noon on Wednesday, 2 July 2014.

**If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by 12:00 noon on Wednesday, 2 July 2014, the Global Offering will not proceed and will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website at [www.hungfooktong.com](http://www.hungfooktong.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

**Share certificates for the Offer Shares are expected to be issued on Thursday, 3 July 2014 but will only become valid certificates of title at 8:00 a.m. on Friday, 4 July 2014 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.**

## STRUCTURE OF THE GLOBAL OFFERING

### HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

Our Company is initially offering 15,800,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Shares between (i) the International Offering; and (ii) the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent 2.5% of our Company's issued share capital immediately after completion of the Global Offering and the Capitalisation Issue.

Of the 15,800,000 Shares initially being offered under the Hong Kong Public Offering, 1,580,000 Shares (representing 10% and 1% of the total number of Shares initially being offered under the Hong Kong Public Offering and the Global Offering, respectively) are available for subscription by Eligible Employees on a preferential basis, subject to the terms and conditions set out in this prospectus and the **PINK** Application Forms.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph "Conditions of the Global Offering" below in this section.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total available Shares under the Hong Kong Public Offering (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering and after deducting the number of Employee Reserved Shares validly applied for under the Employee Preferential Offering) is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5.0 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 7,110,000 Hong Kong Offer Shares are liable to be rejected.

## STRUCTURE OF THE GLOBAL OFFERING

### Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 47,400,000 Offer Shares (in the case of (i)), 63,200,000 Offer Shares (in the case of (ii)) and 79,000,000 Offer Shares (in the case of (iii)) representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option) in each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate. In addition, in certain prescribed circumstances, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate International Offer Shares as it deems appropriate from the International Offering to the Hong Kong Public Offering to satisfy in whole or in part the excess valid application in the Hong Kong Public Offering.

If the Hong Kong Offer Shares are not fully subscribed for, the Sole Global Coordinator may, at its sole and absolute discretion, reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportion as the Sole Global Coordinator deems appropriate.

### Applications

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$1.30 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph "Price Determination of the Global Offering" below in this section, is less than the maximum price of HK\$1.30 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares" in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

## STRUCTURE OF THE GLOBAL OFFERING

### EMPLOYEE PREFERENTIAL OFFERING

Up to 1,580,000 Employee Reserved Shares, representing 10% of the Offer Shares available under the Hong Kong Public Offering and 0.25% of the enlarged issued share capital of our Company upon completion of the Global Offering and the Capitalisation Issue, which are not subject to reallocation to the International Offering as described in the paragraph “Hong Kong Public Offering — Reallocation” above in this section, are available for subscription by Eligible Employees on a preferential basis.

The 1,580,000 Employee Reserved Shares available for application by Eligible Employees on **PINK** Application Forms will be allocated to such applicants on a basis based on the level of valid applications received under the Employee Preferential Offering and the number of Employee Reserved Shares validly applied for within each application tier. The allocation basis will be consistent with the allocation basis commonly used in the case of over-subscriptions in public offerings in Hong Kong, where a higher allocation percentage will be applied in respect of smaller applications. The Employee Reserved Shares will be balloted if there are insufficient Employee Reserved Shares available to **PINK** Application Form applicants. If balloting is conducted, an Eligible Employee may be allocated more Employee Reserved Shares than others who have applied for the same number of Employee Reserved Shares. The allocation of Employee Reserved Shares to Eligible Employees will in any event be made on an equitable basis and will not be based on the identity, seniority, work performance or length of service of the Eligible Employees. No favour will be given to the Eligible Employees who apply for a large number of Employee Reserved Shares. Any application made on a **PINK** Application Form for more than 1,580,000 Employee Reserved Shares will be rejected. Allocation of Hong Kong Offer Shares under the Employee Preferential Offering will be based on the allocation guidelines contained in Practice Note 20 to the Listing Rules. In addition to any application for Employee Reserved Shares on a **PINK** Application Form, Eligible Employees will be entitled to apply for the Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form or by submitting application online through the designated website of the **White Form eIPO** Service Provider or giving electronic application instruction to HKSCC via CCASS.

As at the Latest Practicable Date, our Group had 906 Eligible Employees.

In case not all the 1,580,000 Employee Reserved Shares are subscribed for by Eligible Employees, the undersubscribed Employee Reserved Shares will be available as Hong Kong Offer Shares for subscription by the public under the Hong Kong Public Offering.

### INTERNATIONAL OFFERING

#### Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription under the International Offering will be 142,200,000 Shares, representing approximately 90% of the total number of the Offer Shares initially available under the Global Offering (subject to adjustment and the Over-allotment Option). Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent 22.5% of our enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue.

The International Offering is subject to the same conditions as stated in the paragraph “Conditions of the Global Offering” below in this section.

#### Allocation

The International Offering will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional

## STRUCTURE OF THE GLOBAL OFFERING

investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the book-building process described in the paragraph "Price Determination of the Global Offering" below in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

### **Over-allotment Option**

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Sole Global Coordinator (on behalf of International Underwriters) exercisable at the sole discretion of the Sole Global Coordinator (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to 23,700,000 additional Shares, representing approximately 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Share under the International Offering to cover over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

### **PRICE DETERMINATION OF THE GLOBAL OFFERING**

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Friday, 27 June 2014, and in any event not later than 12:00 noon on Wednesday, 2 July 2014, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$1.30 per Share and is expected to be not less than HK\$1.00 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

**Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Sole Global Coordinator, for itself and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the

## STRUCTURE OF THE GLOBAL OFFERING

number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.hungfooktong.com](http://www.hungfooktong.com) notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the levels of indication of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares under the Hong Kong Public Offering, are expected to be announced on Thursday, 3 July 2014 in the manner set out in the section “How to Apply for Hong Kong Offer Shares and Employee Reserved Shares — 11. Publication of Results” in this prospectus.

### STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permitted to do so, in each case in compliance with all applicable laws, rules and regulations, including those of Hong Kong. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

The Sole Global Coordinator has been appointed by us as the stabilising manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising Rules), as amended, made under the SFO. Any market purchases of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action, which if commenced, will be conducted at the sole and absolute discretion of the Sole Global Coordinator or any person acting for it and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that



## STRUCTURE OF THE GLOBAL OFFERING

may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 23,700,000 Shares in aggregate, which is approximately 15% of the Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules under the SFO includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (iii) subscribing, or agreeing to subscribe, for our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling, or agreeing to sell, our Shares in order to liquidate any position established as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The Stabilising Manager or any person acting for it, may take all or any of the above stabilising action in Hong Kong during the stabilisation period.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty regarding the extent to which and the time period for which the Stabilising Manager or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager or any other person acting for them, may have an adverse impact on the market price of the Shares;
- stabilising action cannot be used to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 23,700,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option, which will be exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

## STRUCTURE OF THE GLOBAL OFFERING

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Sole Global Coordinator (or any person acting for it) may choose to borrow Shares from Shareholders of our Company under stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

The Stabilising Manager will enter into the Stock Borrowing Agreement with Think Expert, one of the Controlling Shareholders, whereby the Stabilising Manager may borrow Shares from Think Expert on the following conditions:

- (a) the stock borrowing will only be effected by the Stabilising Manager for the settlement of over-allocations in connection with the International Offering;
- (b) the maximum number of Shares borrowed from Think Expert will be limited to 23,700,000 Shares, being the maximum number of Shares which may be allotted and issued by our Company and which may be sold by the Selling Shareholders upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Think Expert must be returned to it or its nominees (as the case may be) no later than the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or (iii) such earlier time as may be agreed in writing between Think Expert and the Stabilising Manager;
- (d) the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- (e) no payments will be made to Think Expert by the Stabilising Manager in relation to such stock borrowing arrangement.

The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. The Stock Borrowing Arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements set forth in Rule 10.07(3) of the Listing Rules. No payment will be made to Think Expert by the Stabilising Manager or its agent in relation to such stock.

### DEALINGS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 4 July 2014, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 4 July 2014, and will be traded in board lots of 2,000.

# HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

## 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

In addition, if you are an Eligible Employee, you may also apply for Employee Reserved Shares using a **PINK** Application Form. Eligible Employees may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering and the Employee Reserved Shares under the Employee Preferential Offering but may not apply for or indicate an interest for International Offer Shares under the International Offering.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO Service Provider** and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

## 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of China.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Only Eligible Employees may apply for the Employee Reserved Shares with a **PINK** Application Form.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares (including any Employee Reserved Shares) if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 23 June 2014 until 12:00 noon on Thursday, 26 June 2014 from:

- (i) any of the following offices of the **Hong Kong Underwriters**:

<b>Crosby Securities Limited</b>	5/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong
<b>Shenyin Wanguo Capital (H.K.) Limited</b>	Level 19, 28 Hennessy Road, Hong Kong
<b>DBS Asia Capital Limited</b>	17/F, The Center, 99 Queen's Road Central, Hong Kong
<b>Halcyon Securities Limited</b>	11/F, 8 Wyndham Street, Central, Hong Kong

<b>HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES</b>
---

(ii) any of the following branches of **DBS Bank (Hong Kong) Limited**:

	<b>Branch name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Head Office	G/F, The Center, 99 Queen's Road Central
	United Centre Branch	Shops 1015–1018, 1/F & Shops 2032-2034, 2/F, United Centre, 95 Queensway, Admiralty
	North Point Branch	G/F, 391 King's Road, North Point
	Hennessy Road Branch	G/F,427-429 Hennessy Road, Causeway Bay
	Quarry Bay Branch	Shop A, G/F, 1063 King's Road, Quarry Bay
<b>Kowloon</b>	Nathan Road Branch	G/F, Wofoo Commercial Building, 574–576 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 22–24 Cameron Road, Tsim Sha Tsui
	Hoi Yuen Road Branch	Unit 2, G/F, Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong
<b>New Territories</b>	Yuen Long Branch	G/F, 1–5 Tai Tong Road, Yuen Long
	Shatin Plaza Branch	Shop 47 & 48, Level 1, Shatin Plaza, No. 21–27 Sha Tin Centre Street, Shatin
	Tsuen Wan Branch	G/F, 23 Chung On Street, Tsuen Wan
	Ma On Shan Branch	Shop 205–206, Level 2, Ma On Shan Plaza, Ma On Shan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 23 June 2014 until 12:00 noon on Thursday, 26 June 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

A **PINK** Application Form together with this prospectus can be collected by Eligible Employees from our Company's head office at 12/F., ADP Pentagon Centre, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong during normal business hours from 9:00 a.m. on Monday, 23 June 2014 until 12:00 noon on Wednesday, 25 June 2014. Electronic copies of the **PINK** Application Form and this prospectus can be viewed from our Company's website at [www.hungfooktong.com](http://www.hungfooktong.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk).

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Ting Hong Nominees Limited — Hung Fook Tong Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Monday, 23 June 2014 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 24 June 2014 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 25 June 2014 — 9:00 a.m. to 5:00 p.m.
- Thursday, 26 June 2014 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 26 June 2014, the last application day or such later time as described in the paragraph "10. Effect of Bad Weather on the Opening of the Applications Lists" below in this section.

Your completed **PINK** Application Form, together with a cheque attached and marked payable to "**Ting Hong Nominees Limited — Hung Fook Tong Public Offer**" for the payment must be returned to our Company's head office at 12/F., ADP Pentagon Centre, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong by 12:00 noon on Wednesday, 25 June 2014.

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the firstnamed applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

### **Additional instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

### **Additional terms and conditions for the Employee Preferential Offering**

You may refer to the **PINK** Application Form for details.

## **5. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in the paragraph “2. Who Can Apply” above in this section, may apply through the **White Form eIPO** for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the **White Form eIPO** Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 23 June 2014 until 11:30 a.m. on Thursday, 26 June 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 26 June 2014 or such later time under the paragraph “10. Effects of Bad Weather on the Opening of the Applications Lists” below in this section.

### **No Multiple Applications**

If you apply by means of the **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed



## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

to have been made. For the avoidance of doubt, giving an electronic application instruction under the **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### **Environmental Protection**

The obvious advantage of White Form eIPO is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 per “**Hung Fook Tong Group Holdings Limited**” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
2nd Floor, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

# HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

## Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

## Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

## Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Monday, 23 June 2014 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Tuesday, 24 June 2014 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Wednesday, 25 June 2014 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>
- Thursday, 26 June 2014 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon

---

*Note:*

<sup>(1)</sup> These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, 23 June 2014 until 12:00 noon on Thursday, 26 June 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, 26 June 2014, the last application day or such later time as described in the paragraph “10. Effect of Bad Weather on the Opening of the Application Lists” below in this section.

### **No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### **Personal Data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## **7. WARNING FOR ELECTRONIC APPLICATIONS**

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before Thursday, 26 June 2014.

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

If you are an Eligible Employee, you may also make an application for Employee Reserved Shares by using a **PINK** Application Form. Only one application for Employee Reserved Shares is permitted per Eligible Employee under the Employee Preferential Offering. Multiple applications or suspected multiple applications by any Eligible Employee are liable to be rejected.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE**, **YELLOW** and **PINK** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

You may submit an application using a **WHITE**, **YELLOW** and **PINK** Application Form or through the **White Form eIPO** in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section “Structure of the Global Offering — Price Determination of the Global Offering” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 26 June 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 26 June 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the Employee Preferential Offering and the basis of allocation of the Hong Kong Offer Shares and the Employee Reserved Shares on Thursday, 3 July 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on our website at [www.hungfooktong.com](http://www.hungfooktong.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering and the Employee Preferential Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our website at [www.hungfooktong.com](http://www.hungfooktong.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Thursday, 3 July 2014;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 3 July 2014 to 12:00 midnight on Wednesday, 9 July 2014;

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 3 July 2014 to Sunday, 6 July 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 3 July 2014 to Saturday, 5 July 2014 and Monday, 7 July 2014 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares (including, if applicable, the Employee Reserved Shares) if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

#### (i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.



## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares (and the Employee Reserved Shares) is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations;
- you apply for more than 7,110,000 Hong Kong Offer Shares; or
- you apply for more than 1,580,000 Employee Reserved Shares.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.30 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked,

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 3 July 2014.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below) and one share certificate for all the Employee Reserved Shares allotted to you under the Employee Preferential Offering.

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE**, **YELLOW** or **PINK** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares and/or Employee Reserved Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 3 July 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 4 July 2014 provided that the Global Offering has become unconditional and the right of termination described in the section "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

### Personal Collection

#### (i) If you apply using a **WHITE** and/or **PINK** Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and/or 50,000 or more Employee Reserved Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 3 July 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares and/or 50,000 Employee Reserved Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 3 July 2014, by ordinary post and at your own risk.

#### (ii) If you apply using a **YELLOW** Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 3 July 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 3 July 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph "II. Publication of Results" above in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

before 5:00 p.m. on Thursday, 3 July 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### (iii) If you apply through the White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 3 July 2014, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 3 July 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

### (iv) If you apply via Electronic Application Instructions to HKSCC

#### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 3 July 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on

## HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

Thursday, 3 July 2014. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 3 July 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 3 July 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 3 July 2014.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

23 June 2014

The Directors  
Hung Fook Tong Group Holdings Limited

Crosby Securities Limited

Dear Sirs,

We report on the financial information of Hung Fook Tong Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the combined statements of financial position as at 31 December 2011, 2012 and 2013, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix IA to the prospectus of the Company dated 23 June 2014 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong 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. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed "Reorganisation" below, which was completed on 14 March 2014, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their respective places of incorporation. The details of the statutory auditors of these companies are set out in Note 1.2 of Section II.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.3 of Section II below.

#### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.3 of Section II below and in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

#### **REPORTING ACCOUNTANT'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

#### **OPINION**

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.3 of Section II below, a true and fair view of the combined state of affairs of the Group as at 31 December 2011, 2012 and 2013 and of the Group's combined results and cash flows for the Relevant Periods then ended.

## I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2011, 2012 and 2013, and for each of the years ended 31 December 2011, 2012 and 2013 (the "Financial Information"):

**Combined Statements of Comprehensive Income**

	Note	Year ended 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
Revenue	5,6	479,298	578,693	645,049
Cost of sales	7	<u>(206,206)</u>	<u>(227,295)</u>	<u>(257,950)</u>
<b>Gross profit</b>		273,092	351,398	387,099
Other income	6	568	596	1,143
Other gains/(losses), net	6	2,025	(37)	(64)
Selling and distribution costs	7	(45,134)	(48,068)	(55,249)
Administrative expenses	7	<u>(218,350)</u>	<u>(252,956)</u>	<u>(282,407)</u>
<b>Operating profit</b>		12,201	50,933	50,522
Finance income	9	162	3,124	4,303
Finance costs	9	<u>(2,831)</u>	<u>(5,942)</u>	<u>(6,304)</u>
Finance costs, net	9	<u>(2,669)</u>	<u>(2,818)</u>	<u>(2,001)</u>
<b>Profit before income tax</b>		9,532	48,115	48,521
Income tax expense	10	<u>(3,220)</u>	<u>(11,331)</u>	<u>(12,548)</u>
<b>Profit for the year</b>		<u>6,312</u>	<u>36,784</u>	<u>35,973</u>
<b>Profit/(loss) attributable to:</b>				
Equity holders of the Company		6,991	35,961	34,468
Non-controlling interests		<u>(679)</u>	<u>823</u>	<u>1,505</u>
		<u>6,312</u>	<u>36,784</u>	<u>35,973</u>
Earnings per share for profit attributable to equity holders of the Company				
— Basic and diluted	11	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



	Note	Year ended 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
<b>Other comprehensive (loss)/income:</b>				
<i>Items that may be subsequently reclassified to profit or loss</i>				
— Currency translation differences		<u>(238)</u>	<u>415</u>	<u>972</u>
<b>Other comprehensive (loss)/income, net of tax</b>		<u><u>(238)</u></u>	<u><u>415</u></u>	<u><u>972</u></u>
<b>Total comprehensive income for the year</b>		<u><u>6,074</u></u>	<u><u>37,199</u></u>	<u><u>36,945</u></u>
<b>Total comprehensive income/(loss) attributable to:</b>				
Equity holders of the Company		6,718	36,312	35,340
Non-controlling interests		<u>(644)</u>	<u>887</u>	<u>1,605</u>
		<u><u>6,074</u></u>	<u><u>37,199</u></u>	<u><u>36,945</u></u>
Dividends	12	<u><u>7,000</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

## Combined Statements of Financial Position

	Note	As at 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	13	40,251	38,199	44,505
Investment property	14	916	887	858
Amounts due from related companies	27	5,880	82,949	61,655
Prepayments and deposits	18	20,437	22,699	15,812
Deferred income tax assets	21	9,963	6,383	4,692
		<u>77,447</u>	<u>151,117</u>	<u>127,522</u>
<b>Current assets</b>				
Inventories	15	21,004	22,500	29,375
Trade receivables	17	49,531	49,245	66,414
Prepayments, deposits and other receivables	18	13,773	19,923	31,026
Amounts due from related companies	27	1,522	14,824	42,212
Amounts due from directors	28	31,773	35,068	43,338
Tax recoverable		—	664	480
Restricted cash	19	17,184	21,028	31,073
Cash and cash equivalents	19	54,582	43,249	64,738
		<u>189,369</u>	<u>206,501</u>	<u>308,656</u>
<b>Total assets</b>		<u>266,816</u>	<u>357,618</u>	<u>436,178</u>

		<b>As at 31 December</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Equity</b>				
	Share capital	—	—	—
	Reserves	30,645	66,957	102,297
		30,645	66,957	102,297
	Non-controlling interests	212	1,099	2,704
	<b>Total equity</b>	<u>30,857</u>	<u>68,056</u>	<u>105,001</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
	Provision for reinstatement costs	4,012	3,773	1,540
	Deferred income tax liabilities	234	185	286
	Bank borrowings	—	—	23,029
	Obligation under finance leases	—	—	2,495
		<u>4,246</u>	<u>3,958</u>	<u>27,350</u>
<b>Current liabilities</b>				
	Trade and bill payables	29,457	33,138	34,863
	Accruals and other payables	42,782	47,369	47,386
	Provision for reinstatement costs	1,008	1,471	3,730
	Receipts in advance	78,395	73,222	105,521
	Amounts due to related companies	82	101	19,082
	Amounts due to directors	10,422	9,421	9,784
	Bank borrowings	68,565	116,907	77,127
	Obligation under finance leases	93	—	893
	Taxation payable	909	3,975	5,441
		<u>231,713</u>	<u>285,604</u>	<u>303,827</u>
	<b>Total liabilities</b>	<u>235,959</u>	<u>289,562</u>	<u>331,177</u>
	<b>Total equity and liabilities</b>	<u>266,816</u>	<u>357,618</u>	<u>436,178</u>
	<b>Net current (liabilities)/assets</b>	<u>(42,344)</u>	<u>(79,103)</u>	<u>4,829</u>
	<b>Total assets less current liabilities</b>	<u>35,103</u>	<u>72,014</u>	<u>132,351</u>

## Combined Statements of Changes in Equity

	Attributable to equity holders of the Company					Non-controlling interests	Total Equity
	Share capital	Capital reserve	Exchange reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>For the year ended 31 December 2011</b>							
Balance at 1 January 2011	—	8,123	2,293	20,511	30,927	856	31,783
<b>Comprehensive income</b>							
Profit/(loss) for the year	—	—	—	6,991	6,991	(679)	6,312
<b>Other comprehensive income</b>							
Currency translation differences	—	—	(273)	—	(273)	35	(238)
<b>Total comprehensive income for the year</b>	<u>—</u>	<u>—</u>	<u>(273)</u>	<u>6,991</u>	<u>6,718</u>	<u>(644)</u>	<u>6,074</u>
<b>Total contributions by and distributions to owners of the Company recognised directly in equity</b>							
Dividend relating to the year ended 31 December 2011	—	—	—	(7,000)	(7,000)	—	(7,000)
<b>Total transactions with owners</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(7,000)</u>	<u>(7,000)</u>	<u>—</u>	<u>(7,000)</u>
<b>Balance at 31 December 2011</b>	<u>—</u>	<u>8,123</u>	<u>2,020</u>	<u>20,502</u>	<u>30,645</u>	<u>212</u>	<u>30,857</u>
<b>For the year ended 31 December 2012</b>							
Balance at 1 January 2012	—	8,123	2,020	20,502	30,645	212	30,857
<b>Comprehensive income</b>							
Profit for the year	—	—	—	35,961	35,961	823	36,784
<b>Other comprehensive income</b>							
Currency translation differences	—	—	351	—	351	64	415
<b>Total comprehensive income for the year</b>	<u>—</u>	<u>—</u>	<u>351</u>	<u>35,961</u>	<u>36,312</u>	<u>887</u>	<u>37,199</u>
<b>Balance at 31 December 2012</b>	<u>—</u>	<u>8,123</u>	<u>2,371</u>	<u>56,463</u>	<u>66,957</u>	<u>1,099</u>	<u>68,056</u>
<b>For the year ended 31 December 2013</b>							
Balance at 1 January 2013	—	8,123	2,371	56,463	66,957	1,099	68,056
<b>Comprehensive income</b>							
Profit for the year	—	—	—	34,468	34,468	1,505	35,973
<b>Other comprehensive income</b>							
Currency translation differences	—	—	872	—	872	100	972
<b>Total comprehensive income for the year</b>	<u>—</u>	<u>—</u>	<u>872</u>	<u>34,468</u>	<u>35,340</u>	<u>1,605</u>	<u>36,945</u>
<b>Balance at 31 December 2013</b>	<u>—</u>	<u>8,123</u>	<u>3,243</u>	<u>90,931</u>	<u>102,297</u>	<u>2,704</u>	<u>105,001</u>

## Combined Statements of Cash Flows

	Note	Year ended 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	29(a)	31,884	62,673	68,002
Income tax paid		(4,432)	(5,398)	(9,106)
Net cash generated from operating activities		<u>27,452</u>	<u>57,275</u>	<u>58,896</u>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(29,001)	(15,964)	(15,304)
Proceeds from disposal of property, plant and equipment	29(b)	2,862	233	21
Reinstatement costs paid for shop and office premises	24	(133)	(57)	(364)
(Advance to)/repayment from related companies		(4,536)	(87,783)	16,893
Increase in bank deposit with original maturity over 3 months		—	(1,142)	(7,900)
Increase in pledged bank deposits		(5,485)	(2,702)	(2,145)
Interest received		162	555	297
Advances to directors		(612)	(4,296)	(10,188)
Repayment from directors		6,635	—	363
Net cash used in investing activities		<u>(30,108)</u>	<u>(111,156)</u>	<u>(18,327)</u>
<b>Cash flows from financing activities</b>				
Proceeds from new borrowings		26,308	99,333	88,625
Repayment of obligation under finance leases		(91)	(93)	—
Proceeds from obligation under finance leases		—	—	3,388
Repayment of bank loans		(8,529)	(54,714)	(84,917)
Dividend paid		(7,000)	—	—
Interest paid		(2,831)	(5,942)	(6,304)
Net cash generated from financing activities		<u>7,857</u>	<u>38,584</u>	<u>792</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>				
Effect of currency translation difference		5,201	(15,297)	41,361
Cash and cash equivalents at beginning of year		(265)	241	587
		<u>32,903</u>	<u>37,839</u>	<u>22,783</u>
<b>Cash and cash equivalents at end of year</b>	19	<u>37,839</u>	<u>22,783</u>	<u>64,731</u>

## II NOTES TO THE COMBINED FINANCIAL INFORMATION

### 1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

#### 1.1 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 now comprising the Group (together the "Group") are principally engaged in the retail, wholesale and distribution of bottled drinks, other herbal products and snacks in Hong Kong and in the People's Republic of China ("PRC") (the "Listing Business").

These Financial Information are presented in thousands of Hong Kong dollars ("HK\$'000"), unless otherwise stated.

#### 1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the Listing Business was carried out by companies now comprising the Group (collectively the "Operating Companies"). The Operating Companies were collectively controlled by Ms. Wong Pui Chu ("Ms. Wong"), Mr. Tse Po Tat ("Mr. PT Tse") and Mr. Kwan Wang Yung ("Mr. Kwan") (the "Controlling Shareholders") throughout the Relevant Periods.

In preparation for listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation to transfer the Listing Business to the Company principally through the following steps:

- (i) On 10 January 2014, the Company was incorporated in the Cayman Islands. Upon incorporation, one share of the Company was allotted and issued to Ms. Wong.
- (ii) On 17 January 2014, Hung Fook Tong Group Limited ("HFT (BVI)") was incorporated in the British Virgin Islands. On the same date, one share of HFT (BVI) was allotted and issued to the Company and it became a wholly-owned subsidiary of the Company.
- (iii) On 14 March 2014, the Company allotted and issued 4,042 shares, 2,376 shares, 1,890 shares, 861 shares, 479 shares, 351 shares to a company wholly owned by Ms. Wong, a company wholly-owned by Mr. PT Tse, a company wholly-owned by Mr. Kwan, Mr. Tse Po Shing ("Mr. PS Tse"), a company wholly-owned by Dr. Szeto Wing Fu ("Dr. Szeto") and Mr. Wong Fat Mo ("Mr. Wong"), respectively, pursuant to a share swap agreement, as the consideration for the acquisition by HFT (BVI) for the entire shareholdings of the Operating Companies held by the Controlling Shareholders, Mr. PS Tse, Dr. Szeto and Mr. Wong. Upon the completion of the share swap, the Operating Companies became the wholly-owned subsidiaries indirectly held by the Company.

Upon the completion of the Reorganisation, the Company has direct or indirect interests in the following subsidiaries:

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/registered capital	Effective interest held as at			Note
					2011	2012	2013	
<b>Directly held</b>								
Hung Fook Tong Group Limited	The British Virgin Islands, 17 January 2014	Investment holding	Limited liability company	1 share of nil par value	N/A	N/A	N/A	(b)
<b>Indirectly held</b>								
Hung Fook Tong Holdings Limited	Hong Kong, 6 May 1993	Investment holding	Limited liability company	HK\$111,111	100%	100%	100%	(a)

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/registered capital	Effective interest held as at			Note
					2011	2012	2013	
<b>Indirectly held</b>								
Hung Fook Tong Franchise System Management Limited	Hong Kong, 19 November 1992	Wholesaling and retailing of herbal products	Limited liability company	HK\$10,000	100%	100%	100%	(a)
Hung Fook Tong (Herbal Tea) Limited	Hong Kong, 13 January 1989	Manufacturing & wholesaling of herbal products and snacks	Limited liability company	HK\$300,000	100%	100%	100%	(a)
Hung Fook Tong Trading Company Limited	Hong Kong, 23 May 2006	Trading of bottled drinks	Limited liability company	HK\$1	100%	100%	100%	(a)
Hung Fook Tong (China) Development Limited	Hong Kong, 29 April 1993	Importing, wholesaling and distribution of bottled herbal drinks	Limited liability company	HK\$6,000,000	100%	100%	100%	(a)
Hung Fook Tong Real Property Limited	Hong Kong, 22 July 1988	Property investment	Limited liability company	HK\$30,000	100%	100%	100%	(a)
Hung Fook Tong Property Leasing Limited	Hong Kong, 20 April 1993	Administration of group rental leases	Limited liability company	HK\$2	100%	100%	100%	(a)
Hung Fook Tong Franchisor Consultancy Ltd.	Hong Kong, 20 April 1993	Design, promotion & public relations activities for group business & engineering & image design of shop business	Limited liability company	HK\$2	100%	100%	100%	(a)
Hung Fook Tong Herbal Tea Holdings Limited	Hong Kong, 10 January 2007	Inactive	Limited liability company	HK\$100	100%	100%	100%	(a)
Quality of Life Products Company Limited	Hong Kong, 21 July 1992	Wholesaling of coupons and catering	Limited liability company	HK\$10,000	100%	100%	100%	(a)
Hung Fook Tong (China) Investment Limited	Hong Kong, 25 January 2011	Inactive	Limited liability company	HK\$2	100%	100%	100%	(a)
Hung Fook Tong Management Institute Limited	Hong Kong, 17 December 2005	Provision of training courses	Limited liability company	HK\$1	100%	100%	100%	(a)
Hong Kong Hung Fook Tong Herbal Tea Holdings Limited	Hong Kong, 24 December 2007	Inactive	Limited liability company	HK\$1	100%	100%	100%	(a)
Hung Fook Hong Health Food (Shenzhen) Company Limited (鴻福行保健食品(深圳)有限公司)	PRC, 3 November 1998	Manufacturing of bottled drinks	Limited liability company	HK\$20,100,000	100%	100%	100%	(a), (c)
Hung Fook Tong (Guangzhou) Trading Company Limited (鴻福堂(廣州)貿易有限公司)	PRC, 9 December 2011	Trading of bottled drinks	Limited liability company	RMB2,000,000	100%	100%	100%	(a), (c)
Hung Fook Tong Services Limited	Hong Kong, 4 October 1994	Licence holding for Hung Fook Tong (Herbal Tea) Limited and Hung Fook Tong Franchise System Management Limited	Limited liability company	HK\$3	100%	100%	100%	(a)
Gold Work Limited	Hong Kong, 1 April 2010	Investment holding	Limited liability company	HK\$10,000	100%	100%	100%	(a)

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/registered capital	Effective interest held as at			Note
					2011	2012	2013	
<b>Indirectly held</b>								
Goldmark Plastic Bottle Manufacturing Limited	Hong Kong, 11 October 2002	Investment holding	Limited liability company	HK\$100,000	51%	51%	51%	(a), (d)
Gaoda Plastic Bottle (Dongguan) Company Limited (高達塑膠瓶(東莞)有限公司)	PRC, 3 May 2012	Manufacturing of plastics bottles	Limited liability company	HK\$1,995,104	N/A	51%	51%	(a), (c)
Hung Fook Tong International Limited	Hong Kong, 20 July 1993	Investment holding	Limited liability company	HK\$10,000	100%	100%	100%	(a)
Hung Fook Tong Herbal Tea (Guangdong) Company Limited (鴻福堂涼茶(廣東)有限公司)	PRC, 13 March 2008	Wholesaling and retailing of herbal products	Limited liability company	RMB10,703,916	100%	100%	100%	(a), (c), (e)
Hung Fook Tong Herbal Tea and Food (Shanghai) Company Limited (鴻福堂涼茶食品(上海)有限公司)	PRC, 8 September 2011	Wholesaling and retailing of herbal products	Limited liability company	RMB1,000,000	100%	100%	100%	(a), (c)
Ming Tong Catering Management (Shanghai) Company Limited (鳴堂餐飲管理(上海)有限公司)	PRC, 8 October 2013	Restaurant management and import and export of general merchandise	Limited liability company	RMB1,000,000	N/A	N/A	100%	(b), (c)

**Notes:**

- (a) The statutory financial statements for the years ended 31 December 2011 and 2012 where applicable, were audited by certified public accountants as follows:

Name of Company	For the years ended	
	2011	2012
Hung Fook Tong Holdings Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong Franchise System Management Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong (Herbal Tea) Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong Trading Company Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong (China) Development Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong Real Property Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong Property Leasing Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong Franchisor Consultancy Ltd.	Ascenda Cachet CPA Limited	PricewaterhouseCoopers



Name of Company	For the years ended	
	2011	2012
Hung Fook Tong Herbal Tea Holdings Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Quality of Life Products Company Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong (China) Investment Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Tong Management Institute Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hong Kong Hung Fook Tong Herbal Tea Holdings Limited	Ascenda Cachet CPA Limited	PricewaterhouseCoopers
Hung Fook Hong Health Food (Shenzhen) Company Limited 鴻福行保健食品(深圳)有限公司	Shenzhen Jiahe Certified Public Accountants 深圳佳和會計師事務所	Shenzhen Jiahe Certified Public Accountants 深圳佳和會計師事務所
Hung Fook Tong (Guangzhou) Trading Company Limited 鴻福堂(廣州)貿易有限公司	Guangdong Chengfengxin Certified Public Accountants 廣東誠豐信會計師事務所	Guangdong Chengfengxin Certified Public Accountants 廣東誠豐信會計師事務所
Hung Fook Tong Services Limited	Ascenda Cachet CPA Limited	Ascenda Cachet CPA Limited
Gold Work Limited	F.S. Li & Co.	F.S. Li & Co.
Goldmark Plastic Bottle Manufacturing Limited	Chan Wong & Company (For the year ended 31 March 2011)	F.S. Li & Co. (For the year ended 31 March 2012 and nine months ended 31 December 2012)
Gaoda Plastic Bottle (Dongguan) Company Limited (高達塑膠瓶(東莞)有限公司)	N/A	Dongguan Hekuangshun Certified Public Accountants 東莞合匡順會計師事務所
Hung Fook Tong International Limited	Ascenda Cachet CPA Limited	Ascenda Cachet CPA Limited
Hung Fook Tong Herbal Tea (Guangdong) Company Limited (鴻福堂涼茶(廣東)有限公司)	Shenzhen Jiahe Certified Public Accountants 深圳佳和會計師事務所	Shenzhen Jiahe Certified Public Accountants 深圳佳和會計師事務所
Hung Fook Tong Herbal Tea and Food (Shanghai) Company Limited (鴻福堂涼茶食品(上海)有限公司)	Shanghai Yinhu Certified Public Accountants 上海銀滙會計師事務所	Shanghai Yinhu Certified Public Accountants 上海銀滙會計師事務所

- (b) No audited financial statements were issued for the company as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.
- (c) The English names of certain subsidiaries and auditors represent the best effort by the management of the Company in translating their Chinese names as they do not have official English names.
- (d) The entity had accounting year end date of 31 March 2010, 2011 and 2012 and prepared financial statements as at 31 December 2010 and 2011 for the purpose of the Group's consolidation. It had changed its accounting year end date to 31 December during financial year of 2012.
- (e) The name of the company has been changed from 鴻福堂涼茶(深圳)有限公司 to 鴻福堂涼茶(廣東)有限公司 on 17 December 2012.

### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is held by the Operating Companies. Pursuant to the Reorganisation, the Operating Companies together with the Listing Business are transferred to and held by the Company through HFT (BVI). The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the combined financial information of the companies now comprising the Group is presented using the carrying values of the Listing Business under HFT (BVI) for all periods presented. For the purpose of this report, the Financial Information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by HKICPA.

Intercompany transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

### 2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in Note 4.

As at 31 December 2011 and 2012, the Group's current liabilities exceeded its current assets by HK\$42,344,000 and HK\$79,103,000, respectively. As at 31 December 2013, the Group's current assets exceeded its current liabilities by HK\$4,829,000.

Included within net current (liabilities)/assets were receipts in advance of HK\$78,395,000, HK\$73,222,000 and HK\$105,521,000 and bank borrowings of HK\$24,375,000, HK\$53,634,000 and nil due for repayment after 1 year but within 5 years which contain repayable on demand clause as at 31 December 2011, 2012 and 2013 respectively. Certain of the bank borrowings as aforementioned were used for financing the non-current amounts due from related companies of HK\$5,880,000, HK\$82,949,000 and HK\$61,655,000 as at 31 December 2011, 2012 and 2013 respectively.

In preparing the combined financial information, the directors have taken into account all information that could reasonably be expected to be available, and consider that the receipts in advance are not expected to be settled in cash under normal business circumstances, and that the relevant banks will not exercise their discretion to demand immediate repayment but allow such bank borrowings to be repaid in accordance with the scheduled dates set out in the relevant agreements (Note 26).

Excluding the impact of the receipts in advance and bank borrowings as aforementioned which are not expected by the directors to be settled in cash or repaid within 12 months, the Group's current assets would exceed its current liabilities by HK\$60,426,000, HK\$47,753,000 and HK\$110,350,000 as at 31 December 2011, 2012 and 2013 respectively. Management and the directors consider the Group have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due.

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2014 or later periods, but have not been early adopted by the Group.

		<b>Effective for annual periods beginning on or after</b>
HKFRS 9	Financial Instruments	effective date to be determined
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities	1 January 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	1 July 2014
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Impairment of Assets — Recoverable amount disclosures for non-financial assets	1 January 2014
HKAS 39 (Amendment)	Financial instruments: Recognition and Measurement	1 January 2014
HK(IFRIC)-Int 21	Levies	1 January 2014
Annual improvements 2010–2012	Several HKFRS standards	1 July 2014
Annual improvements 2011–2013	Several HKFRS standards	1 July 2014

Management is in the process of making an assessment on the impact of these standards, amendments and interpretations to existing HKFRSs and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

## 2.2 Subsidiaries

### **Consolidation**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statements of comprehensive income.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *(a) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in statements of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit and loss.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Group that makes strategic decisions.

### 2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined financial statements are presented in Hong Kong dollars ("HK\$"), which is the functional and presentation currency of the Group.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the statements of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

(c) *Group companies*

The results and financial position of all the Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statements of financial position presented are translated at the closing rate at the date of that statements of financial position;
- income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

### 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the combined statements of comprehensive income during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Land and buildings	50 years or over the unexpired period of lease, whichever is shorter
Leasehold improvements	3 to 7 years or remaining period of the lease, whichever is shorter
Furniture and fixtures	5 years
Plant and machinery	5 to 10 years
Motor vehicles	5 years
Office and computer equipment	2 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amounts of the relevant assets, and are recognised within 'other gains/(losses), net' in the combined statements of comprehensive income.

## 2.6 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Investment property comprises land and building held under finance lease.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, the investment property is stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation of the investment property is calculated using the straight-line method to allocate cost over their estimated useful life of 50–56 years, representing the land lease period. Investment property's carrying amount is written down immediately to its recoverable amount if the investment property's carrying amount is greater than its estimated recoverable amount (Note 2.7).

The fair value of investment property is disclosed in the Note 14. The fair value is assessed by taking comparable properties as a guide to current market prices.

## 2.7 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.8 Financial assets

The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables comprise trade receivables, deposits and other receivables, amounts due from related companies, amounts due from directors, cash and cash equivalents in the combined statements of financial position (Notes 2.12 and 2.13).

Regular way purchases and sales of financial assets are recognised on the trade-date—the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

## 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the combined statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 2.10 Impairment of financial assets

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statements of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statements of comprehensive income.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statements of financial position, bank overdrafts are shown within borrowings in current liabilities.

### 2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2.16 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in statements of comprehensive income in the period in which they are incurred.

## 2.17 Deferred revenue

Deferred revenue represents outstanding customer loyalty credits, which are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the expected award credits redeemed and deferred. This is then recognised as revenue over the period that the award credits are redeemed or upon expiry date.

## 2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the combined statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statements of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### (b) Deferred income tax

#### *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statements of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### *Outside basis differences*

Deferred income tax is provided on taxable temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.19 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statements of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Retirement benefit obligations*

The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the payroll costs to the central pension schemes. The contributions to the defined contribution retirement scheme are charged to the combined income statement as they become payable in accordance with the rules of the central pension schemes.

The Group pays contributions to an independently administered fund on a mandatory basis in Hong Kong. The Group has no further payment obligations once the contributions have been paid. The contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Group in the independently administered fund.

(c) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2.21 Provisions for reinstatement cost

Provision for reinstatement cost represents the present value of the estimated cost for the restoration work of the Group's leased retail shops agreed to be carried out upon the expiry of the relevant leases using a risk-free pre-tax interest rate. The provision has been determined by the directors based on their best estimates. The related reinstatement costs have been included as leasehold improvement in the combined statements of financial position (see Note 2.5).



## 2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of rebates and discounts. Rebates and discounts granted to customers are classified as a reduction of revenue. The Group recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

- (a) Sales of goods are recognised when the transfer of risks and rewards of ownership, which generally considers with the time when the goods are delivered to customers and title has passed. Where a right of return exists, revenue is recognised when a reasonable estimate of returns can be made.

As part of the Group's ordinary activities, pre-paid coupons and cards are issued and sold to customers, and the receipts in respect of which are deferred and recognised as 'receipts in advance' on the combined statements of financial position. The Group implements a contractual expiry policy for these coupons and cards under which any unutilised prepayments are fully recognised in combined statements of comprehensive income upon their expiry.

- (b) Service income is recognised when the services are rendered.
- (c) Interest income is recognised on a time-proportion basis using the effective interest method.
- (d) Franchise and licence fee income are recognised on an accrual basis in accordance with the substance of the relevant agreements.
- (e) Rental income from investment property is recognised in the combined statements of comprehensive income on a straight-line basis over the term of the lease.
- (f) Dividend income is recognised when the right to receive payment is established.

## 2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the combined statements of comprehensive income on a straight-line basis over the period of lease.

## 2.24 Dividend distribution

Dividend distribution to the then shareholders of the entities now comprising the Group is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the then shareholders.

# 3 FINANCIAL RISK MANAGEMENT

## 3.1 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out by the finance department under the supervision of the board of directors. The board provides principles for overall risk management.

### (a) *Market risk*

#### (i) *Foreign exchange risk*

The Group operates mainly in Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB") and the United States dollar ("USD"). Foreign exchange risk arises from future commercial transactions and recognised financial assets and liabilities.

As at 31 December 2011, 2012 and 2013, if RMB had strengthened/weakened by 5% against Hong Kong dollar with all other variables held constant, pre-tax profit for the years would have been approximately HK\$9,000, HK\$170,000 and HK\$275,000 higher/lower, respectively, mainly as a result of foreign exchange gains/losses on translation of RMB denominated bank deposits, cash and cash equivalents and balances with related parties.

The foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in USD is considered by management to be insignificant as HKD is pegged with USD.

*(ii) Cash flow interest rate risk*

The Group's cash flow interest rate risk arises from bank balances at floating interest rates.

Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The interest rate profile of the Group's borrowings is disclosed in Note 26. The cash deposits placed with banks generate interest at the prevailing market interest rates.

As at 31 December 2011, 2012 and 2013, if interest rates had been 50 basis points higher/lower and all other variable were held constant, the Group's pre-tax profit for the years would have been approximately HK\$41,000, HK\$245,000 and HK\$262,000 higher/lower, respectively, mainly attributable to the Group's exposure to interest rates on its variable rate bank balances and bank borrowings.

**(b) Credit risk**

The credit risk of the Group mainly arises from trade receivables, deposits and other receivables, amounts due from related parties and bank balances.

The management considers that the Group has limited credit risk with its banks which are leading and reputable and are assessed as having low credit risk. As at 31 December 2011, 2012 and 2013, approximately 95%, 97% and 98% respectively, of the bank balances are deposited with listed banks. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

As at 31 December 2011, 2012 and 2013, top 5 customers of the Group accounted for approximately 16%, 15% and 15% respectively, to the trade receivables of the Group. The Group has set up long-term cooperative relationship with this customer. In view of the history of business dealings with the customer and the sound collection history of the receivables due from it, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from this customer. Management makes periodic assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the Financial Information.

The credit quality of the amounts due from related parties have been assessed with reference to historical information about the counterparty default and financial position of the counterparty. Management does not believe the credit risk in relation to the related parties are significant, considering the existing related parties do not have defaults in the past and management does not expect any losses from non-performance by these related parties.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Group considers appropriate and long term financing including long-term borrowings are also considered by the Group in its capital structuring. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the statements of financial position date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balance within 12 months equal their carrying balances as impact at discounting is not significant.

Specifically, for bank borrowings which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lender were to invoke their unconditional rights to call the loans with immediate effort. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	<b>Within 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 31 December 2011</b>				
Trade and bill payables	29,457	—	—	29,457
Accruals and other payables	41,370	—	—	41,370
Bank borrowings	68,565	—	—	68,565
Amounts due to directors	10,422	—	—	10,422
Amounts due to related companies	82	—	—	82
Obligation under finance leases	93	—	—	93
	<u>149,989</u>	<u>—</u>	<u>—</u>	<u>149,989</u>
<b>As at 31 December 2012</b>				
Trade and bill payables	33,138	—	—	33,138
Accruals and other payables	46,031	—	—	46,031
Bank borrowings	116,907	—	—	116,907
Amounts due to directors	9,421	—	—	9,421
Amounts due to related companies	101	—	—	101
	<u>205,598</u>	<u>—</u>	<u>—</u>	<u>205,598</u>
<b>As at 31 December 2013</b>				
Trade and bill payables	34,863	—	—	34,863
Accruals and other payables	46,060	—	—	46,060
Bank borrowings	77,448	7,675	15,441	100,564
Amounts due to directors	9,784	—	—	9,784
Amounts due to related companies	19,082	—	—	19,082
Obligation under finance leases	1,020	1,021	1,618	3,659
	<u>188,257</u>	<u>8,696</u>	<u>17,059</u>	<u>214,012</u>

The table below analyses the bank and other borrowings of the Group into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date without taking into consideration the effect of the clause of repayment on demand.

	<b>Within 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 31 December 2011</b>				
Bank borrowings	44,190	7,788	16,587	68,565
Obligation under finance leases	93	—	—	93
	<u>44,283</u>	<u>7,788</u>	<u>16,587</u>	<u>68,658</u>
<b>As at 31 December 2012</b>				
Bank borrowings	<u>63,272</u>	<u>24,099</u>	<u>29,536</u>	<u>116,907</u>
<b>As at 31 December 2013</b>				
Bank borrowings	72,386	14,532	13,646	100,564
Obligation under finance leases	2,621	478	560	3,659
	<u>75,007</u>	<u>15,010</u>	<u>14,206</u>	<u>104,223</u>

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group uses bank borrowings to finance its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (include bank borrowings, obligation under finance lease and amounts due to related companies) less cash and bank balances. Total capital is calculated as 'equity' as shown in the combined statements of financial position, plus net debt, where applicable.

The Group's strategy was to maintain optimal gearing ratio which the gearing ratio is not higher than 60% as at each statements of financial position date. Management consider that the Group's capital risk is optimal as the Group has cash and cash equivalents of not less than HK\$40,000,000 as at each statements of financial position date.

As at 31 December 2011, 2012 and 2013, the gearing ratios were as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings ( <i>Note 26</i> )	68,565	116,907	100,156
Obligation under finance leases	93	—	3,388
Amounts due to related companies	82	101	19,082
Less: Cash and cash equivalents and restricted cash ( <i>Note 19</i> )	<u>(71,766)</u>	<u>(64,277)</u>	<u>(95,811)</u>
Net (cash)/debt	(3,026)	52,731	26,815
Total equity	<u>30,857</u>	<u>68,056</u>	<u>105,001</u>
Total capital	<u>27,831</u>	<u>120,787</u>	<u>131,816</u>
Gearing ratio	<u>N/A</u>	<u>43.7%</u>	<u>20.3%</u>

### 3.3 Fair value estimation

The carrying values of the Group's financial assets, including trade receivables, deposits and other receivables, amounts due from directors and related companies and cash and cash equivalents, and financial liabilities, including trade and bill payables, other payables, amounts due to related companies, bank borrowings and obligation under finance leases, approximate their fair values due to their short maturities.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (a) Useful lives, residual values and depreciation charges of property, plant and equipment

Management determines the estimated useful lives, residual values and depreciation charges for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### (b) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

**(c) Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each statement of financial position date.

**(d) Provision for impairment of trade and other receivables and amounts due from related companies and directors**

The Group makes provision for impairment of trade and other receivables and amounts due from related companies and directors based on an assessment of the recoverability of trade and other receivables and amounts due from related companies and directors. Provisions are applied to trade and other receivables and amounts due from related companies and directors where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and amounts due from related companies and directors and impairment is recognised in the year in which such estimate has been changed.

**(e) Income taxes**

The Group is subject to income taxes in Hong Kong and in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**(f) Provision for reinstatement costs**

Provision for reinstatement costs is estimated and reassessed at each statement of financial position date with reference to the recent actual reinstatement cost incurred for shops of similar attributes and latest available quotation from independent contractors. Estimation based on current market information may vary over time and could differ from the actual reinstatement cost upon closures or relocation of existing premises.

**5 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 assesses 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 combined financial statements.

The Management has identified three reportable segments based on the Group's major customer types, namely the (i) Hong Kong Retail; (ii) PRC Retail and (iii) Wholesale.

Segment assets consist primarily of property, plant and equipment, investment property, inventories, trade receivables, prepayments, deposits and other receivables, pledged deposits and, cash and cash equivalents. They exclude deferred income tax assets, amounts due from related companies and directors and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment.

Geographically, management considers the retail, wholesale, distribution of bottled drinks, other herbal products and snacks are mainly located in Hong Kong and the PRC, which the revenue and segment results are determined by the geographical location in which the customer is operated. The assets are determined based on where the assets are located.

Unallocated corporate expenses, finance income and costs and income tax expenses are not included in segment results.

The segment information provided to the executive directors for the years ended 31 December 2011, 2012 and 2013 are as follows:

	Year ended 31 December 2011			
	Hong Kong			
	Retail	PRC Retail	Wholesale	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>	324,935	10,097	155,266	490,298
Less: Inter-segment revenue	(4,865)	—	(6,135)	(11,000)
Revenue from external customers	320,070	10,097	149,131	479,298
<b>Segment results</b>	50,460	(6,300)	2,997	47,157
Corporate expenses				(34,956)
Finance costs, net				(2,669)
Profit before income tax				9,532
Income tax expense				(3,220)
<b>Profit for the year</b>				<b>6,312</b>
<b>Other segment items:</b>				
Capital expenditure	11,642	4,546	12,960	29,148
Depreciation	11,219	626	5,519	17,364
Interest income	3	4	155	162
	<u>3</u>	<u>4</u>	<u>155</u>	<u>162</u>
	Year ended 31 December 2012			
	Hong Kong			
	Retail	PRC Retail	Wholesale	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>	385,590	21,587	196,737	603,914
Less: Inter-segment revenue	(3,068)	—	(22,153)	(25,221)
Revenue from external customers	382,522	21,587	174,584	578,693
<b>Segment results</b>	81,068	(6,543)	13,805	88,330
Corporate expenses				(37,397)
Finance costs, net				(2,818)
Profit before income tax				48,115
Income tax expense				(11,331)
<b>Profit for the year</b>				<b>36,784</b>
<b>Other segment items:</b>				
Capital expenditure	6,008	3,749	6,659	16,416
Depreciation and impairment	10,515	3,915	3,971	18,401
Interest income	—	2,867	257	3,124
	<u>—</u>	<u>2,867</u>	<u>257</u>	<u>3,124</u>

	Year ended 31 December 2013			
	Hong Kong Retail	PRC Retail	Wholesale	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>	406,532	25,187	240,156	671,875
Less: Inter-segment revenue	(7,095)	—	(19,731)	(26,826)
Revenue from external customers	399,437	25,187	220,425	645,049
<b>Segment results</b>	75,237	(3,154)	21,348	93,431
Corporate expenses				(42,909)
Finance costs, net				(2,001)
Profit before income tax				48,521
Income tax expense				(12,548)
<b>Profit for the year</b>				<u>35,973</u>
<b>Other segment items:</b>				
Capital expenditure	8,805	2,033	14,475	25,313
Depreciation	10,822	1,133	5,434	17,389
Interest income	3,970	9	324	4,303

The segment assets as at 31 December 2011, 2012 and 2013 are as follows:

	Hong Kong Retail	PRC Retail	Wholesale	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 31 December 2011</b>					
<b>Segment assets</b>	87,250	16,815	118,727	(5,114)	217,678
Amounts due from related companies					7,402
Amounts due from directors					31,773
Tax recoverable					—
Deferred tax assets					9,963
<b>Total assets</b>					<u>266,816</u>
<b>As at 31 December 2012</b>					
<b>Segment assets</b>	76,502	9,467	137,325	(5,564)	217,730
Amounts due from related companies					97,773
Amounts due from directors					35,068
Tax recoverable					664
Deferred tax assets					6,383
<b>Total assets</b>					<u>357,618</u>
<b>As at 31 December 2013</b>					
<b>Segment assets</b>	111,847	13,521	164,392	(5,959)	283,801
Amounts due from related companies					103,867
Amounts due from directors					43,338
Tax recoverable					480
Deferred tax assets					4,692
<b>Total assets</b>					<u>436,178</u>

The Company is domiciled in the Cayman Islands while the Group operates its business in Hong Kong and in the PRC. For the years ended 31 December 2011, 2012 and 2013, no revenue were generated from any customer in the Cayman Islands and no assets were located in Cayman Islands.

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		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	412,983	492,060	517,303
The PRC	53,389	73,049	111,299
Overseas countries	12,926	13,584	16,447
	<u>479,298</u>	<u>578,693</u>	<u>645,049</u>

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		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	132,398	128,657	167,475
The PRC	85,280	89,073	116,326
	<u>217,678</u>	<u>217,730</u>	<u>283,801</u>

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

There is no single external customer contributed more than 10% revenue to the Group's revenue for the years ended 31 December 2011, 2012 and 2013 respectively.

## 6 REVENUE, OTHER INCOME AND OTHER GAINS/(LOSSES), NET

The Group's revenue recognised during the years ended 31 December 2011, 2012 and 2013 are as follows:

### Revenue

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Sale of goods	475,415	566,147	634,684
Service income	35	135	59
Revenue recognised upon expiry of pre-paid coupons and cards	3,848	12,411	10,306
	<u>479,298</u>	<u>578,693</u>	<u>645,049</u>

### Other income

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Rental income	251	238	253
Franchise income	197	189	430
Others	120	169	460
	<u>568</u>	<u>596</u>	<u>1,143</u>



## Other gains/(losses), net

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Gains/(losses) on disposal of property, plant and equipment	2,025	(37)	(64)
	<u>2,025</u>	<u>(37)</u>	<u>(64)</u>

## 7 EXPENSES BY NATURE

	Note	Year ended 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration		661	1,065	1,398
Cost of inventories sold		170,062	180,278	203,976
Operating lease rental in respect of retail outlets				
— Minimum rental		60,902	73,501	81,703
— Contingent rental		1,481	1,191	1,725
Operating lease rental in respect of storage spaces and office premises		6,267	6,753	6,237
Advertising and promotional expenditure		23,435	22,250	25,405
Depreciation of property, plant and equipment	13	17,335	16,788	17,360
Impairment of property, plant and equipment	13	—	1,584	—
Depreciation of investment property	14	29	29	29
Communication and utilities		19,265	22,552	24,682
Employee benefit expenses (including directors' emoluments)	8	125,079	147,756	167,211
Provision for/(reversal of provision for) obsolete inventories	15	127	477	(167)
Provision for/(reversal of provision for) impairment on trade receivables	17	970	(4)	298
Legal and professional fees		816	716	1,775
Listing related expenses		—	—	5,889
Repair and maintenance expenses		2,262	2,265	2,347
Transportation and distribution expenses		18,937	25,730	28,633
Others		22,062	25,388	27,105
Total cost of sales, selling and distribution costs and administrative expenses		<u>469,690</u>	<u>528,319</u>	<u>595,606</u>

## 8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Wages, salaries and bonuses	112,656	133,758	153,338
Medical and other employee benefits	7,114	8,461	7,389
Retirement benefit costs — defined contribution plans	5,309	5,537	6,484
	<u>125,079</u>	<u>147,756</u>	<u>167,211</u>

## (a) Directors' emoluments

The remuneration of directors of the Company paid/payable by the Group for the Relevant Periods is set out below:

## For the year ended 31 December 2011

	Fees	Salary, allowances and benefits in kinds	Retirement benefit scheme contribution	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>				
Ms. Wong	—	354	12	366
Mr. PT Tse	—	310	12	322
Mr. Kwan	—	708	12	720
Dr. Szeto Wing Fu	—	305	12	317
	—	1,677	48	1,725
<b>Non-executive director</b>				
Mr. Tse Po Shing	—	433	12	445

## For the year ended 31 December 2012

	Fees	Salary, allowances and benefits in kinds	Retirement benefit scheme contribution	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>				
Ms. Wong	—	400	14	414
Mr. PT Tse	—	400	14	414
Mr. Kwan	—	810	14	824
Dr. Szeto Wing Fu	—	387	14	401
	—	1,997	56	2,053
<b>Non-executive director</b>				
Mr. Tse Po Shing	—	558	14	572

## For the year ended 31 December 2013

	Fees	Salary, allowances and benefits in kinds	Retirement benefit scheme contribution	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>				
Ms. Wong	—	1,056	15	1,071
Mr. PT Tse	—	1,056	15	1,071
Mr. Kwan	—	1,155	15	1,170
Dr. Szeto Wing Fu	—	1,120	15	1,135
	—	4,387	60	4,447
<b>Non-executive director</b>				
Mr. Tse Po Shing	—	799	15	814

For the years ended 31 December 2011, 2012 and 2013, there was no arrangement under which a director waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Mr. Kiu Wai Ming, Professor Sin Yat Ming and Mr. Andrew Look were appointed as the Company's independent non-executive directors on 11 June 2014. During the Relevant Periods, the independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of independent non-executive directors.

**(b) Five highest paid individuals**

For the years ended 31 December 2011, 2012 and 2013, the five individuals whose emoluments were the highest in the Group include one, one and four directors, respectively, whose emolument is reflected in the analysis above. The emoluments paid/payable to the remaining four, four and one individuals, respectively, during the years ended 31 December 2011, 2012 and 2013 are as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,441	2,858	946
Retirement benefit scheme contribution	48	55	15
	<u>2,489</u>	<u>2,913</u>	<u>961</u>

For the years ended 31 December 2011, 2012 and 2013, the emoluments of the highest paid individuals fell within the following bands:

Emolument band	Number of individuals		
	2011	2012	2013
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>1</u>

**9 FINANCE COSTS, NET**

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>Finance income:</b>			
— Interest income	<u>162</u>	<u>3,124</u>	<u>4,303</u>
<b>Finance costs:</b>			
— Interest expenses on borrowings			
— Repayable within 1 year ( <i>Note</i> )	(1,718)	(2,538)	(3,043)
— Repayable within 2 to 5 years ( <i>Note</i> )	(1,096)	(3,399)	(3,197)
— Interest expenses on finance leases	<u>(17)</u>	<u>(5)</u>	<u>(64)</u>
	<u>(2,831)</u>	<u>(5,942)</u>	<u>(6,304)</u>
Finance costs, net	<u>(2,669)</u>	<u>(2,818)</u>	<u>(2,001)</u>

*Note:* The classification of repayment term is based on the scheduled repayment dates set out in the loan agreements and without taking into account the effect of any repayment on demand clause. (*Note* 26).

**10 INCOME TAX EXPENSE**

**Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 16.5% for the Relevant Periods on the estimated assessable profit for the year.

**PRC Enterprise income tax**

The companies now comprising the Group incorporated in the PRC are subject to Enterprise Income Tax ("EIT") in accordance with the Law of the PRC on Enterprise Income Tax (the "EIT Law"). Under the EIT Law, the income tax rate applicable to the subsidiaries now comprising the Group is 25%.

The amount of income tax expense charged to the combined statements of comprehensive income represents:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>Current tax:</b>			
Hong Kong profits tax on profit for the year	4,700	6,468	7,868
PRC EIT on profit for the year	209	1,150	2,888
Over-provision in prior years	—	(49)	—
<b>Deferred income tax (Note 21)</b>	<u>(1,689)</u>	<u>3,762</u>	<u>1,792</u>
<b>Income tax expense</b>	<u>3,220</u>	<u>11,331</u>	<u>12,548</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the Group's subsidiaries as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>Profit before income tax</b>	<u>9,532</u>	<u>48,115</u>	<u>48,521</u>
Tax calculated at 16.5%	1,572	7,939	8,006
Effect of different tax rates applicable to subsidiaries in the respective locations	(1,118)	733	1,002
Income not subject to tax	(358)	(22)	(16)
Expenses not deductible for tax purposes	729	673	2,100
Tax losses not recognised	2,395	2,057	1,456
Over-provision of income tax expense in prior years	—	(49)	—
<b>Tax charge</b>	<u>3,220</u>	<u>11,331</u>	<u>12,548</u>

## 11 EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the presentation of the results for the years ended 31 December 2011, 2012 and 2013 on a combined basis as set out in Note 1.3 of this section.

## 12 DIVIDENDS

Dividends of HK\$7,000,000 for the year ended 31 December 2011 were declared by Hung Fook Tong Holdings Limited, a company now comprising the Group, to the then equity holders of Hung Fook Tong Holdings Limited.

## 13 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture and fixtures	Plant and machinery	Motor vehicles	Office and computer equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2011</b>							
Cost	1,362	39,995	7,651	45,548	528	4,625	99,709
Accumulated depreciation	(644)	(29,850)	(6,642)	(30,633)	(249)	(2,444)	(70,462)
<b>Net book amount</b>	<b>718</b>	<b>10,145</b>	<b>1,009</b>	<b>14,915</b>	<b>279</b>	<b>2,181</b>	<b>29,247</b>
<b>Year ended 31 December 2011</b>							
Opening net book amount	718	10,145	1,009	14,915	279	2,181	29,247
Additions	—	10,030	297	15,673	404	2,744	29,148
Disposals (Note 29(b))	(712)	(121)	—	(1)	—	(3)	(837)
Depreciation (Note 7)	(6)	(6,872)	(418)	(8,855)	(111)	(1,073)	(17,335)
Exchange difference	—	(5)	—	33	—	—	28
<b>Closing net book amount</b>	<b>—</b>	<b>13,177</b>	<b>888</b>	<b>21,765</b>	<b>572</b>	<b>3,849</b>	<b>40,251</b>
<b>At 31 December 2011</b>							
Cost	—	49,811	7,947	61,291	932	7,352	127,333
Accumulated depreciation	—	(36,634)	(7,059)	(39,526)	(360)	(3,503)	(87,082)
<b>Net book amount</b>	<b>—</b>	<b>13,177</b>	<b>888</b>	<b>21,765</b>	<b>572</b>	<b>3,849</b>	<b>40,251</b>
<b>Year ended 31 December 2012</b>							
Opening net book amount	—	13,177	888	21,765	572	3,849	40,251
Additions	—	6,309	92	8,494	—	1,521	16,416
Disposals (Note 29(b))	—	(235)	(6)	(29)	—	—	(270)
Depreciation (Note 7)	—	(7,840)	(338)	(7,005)	(127)	(1,478)	(16,788)
Impairment (Note 7)	—	(1,584)	—	—	—	—	(1,584)
Exchange difference	—	7	1	164	2	—	174
<b>Closing net book amount</b>	<b>—</b>	<b>9,834</b>	<b>637</b>	<b>23,389</b>	<b>447</b>	<b>3,892</b>	<b>38,199</b>
<b>At 31 December 2012</b>							
Cost	—	55,649	8,031	69,764	935	8,870	143,249
Accumulated depreciation and impairment	—	(45,815)	(7,394)	(46,375)	(488)	(4,978)	(105,050)
<b>Net book amount</b>	<b>—</b>	<b>9,834</b>	<b>637</b>	<b>23,389</b>	<b>447</b>	<b>3,892</b>	<b>38,199</b>
<b>Year ended 31 December 2013</b>							
Opening net book amount	—	9,834	637	23,389	447	3,892	38,199
Additions	—	6,721	76	16,447	—	2,069	25,313
Disposals (Note 29(b))	—	(58)	(24)	(1,853)	(63)	(5)	(2,003)
Depreciation (Note 7)	—	(8,469)	(245)	(7,082)	(122)	(1,442)	(17,360)
Exchange difference	—	29	1	323	3	—	356
<b>Closing net book amount</b>	<b>—</b>	<b>8,057</b>	<b>445</b>	<b>31,224</b>	<b>265</b>	<b>4,514</b>	<b>44,505</b>
<b>At 31 December 2013</b>							
Cost	—	60,535	6,897	81,865	838	10,885	161,020
Accumulated depreciation and impairment	—	(52,478)	(6,452)	(50,641)	(573)	(6,371)	(116,515)
<b>Net book amount</b>	<b>—</b>	<b>8,057</b>	<b>445</b>	<b>31,224</b>	<b>265</b>	<b>4,514</b>	<b>44,505</b>

The land and building disposed during the year ended 31 December 2011 is situated in Hong Kong is held under lease of over 50 years.

Depreciation of HK\$4,046,000, HK\$2,200,000 and HK\$2,924,000 have been charged in 'cost of sales' and HK\$13,289,000, HK\$14,588,000 and HK\$14,145,000 have been charged in 'administrative expenses' for the years ended 31 December 2011, 2012 and 2013, respectively and HK\$291,000 has been charged in 'selling and distribution costs' for the year ended 31 December 2013.

The net carrying amount of the Group's property, plant and machinery of HK\$237,000, nil and nil were pledged for the banking facilities granted to the Group for the years ended 31 December 2011, 2012 and 2013 respectively (Note 26). The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of motor vehicle were HK\$187,000, HK\$129,000 and HK\$4,039,000 as at 31 December 2011, 2012 and 2013 respectively.

In view that some of the shops in the PRC are making recurring losses, and are projected to incur losses in the future periods, the directors have reviewed the recoverability of the relevant carrying amounts of the Group's leasehold improvements incurred by the Group in respect of those shops. The recoverable amounts of the assets of each of the shops have been determined on the basis of the value in use of each of the shops.

The directors determined that the carrying amounts of certain shops exceeded their recoverable amounts. Accordingly, an impairment loss of approximately HK\$1,584,000 has been recognised in respect of leasehold improvements of the shops for the year ended 31 December 2012.

#### 14 INVESTMENT PROPERTY

	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January</b>			
Cost	2,000	2,000	2,000
Accumulated depreciation	<u>(1,055)</u>	<u>(1,084)</u>	<u>(1,113)</u>
Net book amount	<u>945</u>	<u>916</u>	<u>887</u>
<b>Year ended 31 December</b>			
Opening net book amount	945	916	887
Depreciation	<u>(29)</u>	<u>(29)</u>	<u>(29)</u>
Closing net book amount	<u>916</u>	<u>887</u>	<u>858</u>
<b>At 31 December</b>			
Cost	2,000	2,000	2,000
Accumulated depreciation	<u>(1,084)</u>	<u>(1,113)</u>	<u>(1,142)</u>
Net book amount	<u>916</u>	<u>887</u>	<u>858</u>

Investment property situated in Hong Kong is held under lease of over 50 years and rented out under operating lease. The investment property has been pledged to secure general facilities granted to the Company.

The valuation of the investment property is determined using sale comparison approach and is recognised under level 2 of the fair value hierarchy. The fair value of the investment property is assessed by taking comparable properties as a guide to current market prices. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. As determined by management, the fair value amounted to approximately HK\$3,800,000, HK\$4,600,000 and HK\$5,740,000 as at 31 December 2011, 2012 and 2013. The most significant input into this valuation approach is price per square foot.

Depreciation of HK\$29,000, HK\$29,000 and HK\$29,000 have been charged in 'administrative expenses' for the years ended 31 December 2011, 2012 and 2013, respectively.

#### 15 INVENTORIES

	<b>As at 31 December</b>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	9,765	7,543	12,291
Work in process	4,664	4,443	6,510
Finished goods	<u>6,758</u>	<u>11,174</u>	<u>11,067</u>
	21,187	23,160	29,868
Less: Provisions for obsolete inventories	<u>(183)</u>	<u>(660)</u>	<u>(493)</u>
	<u>21,004</u>	<u>22,500</u>	<u>29,375</u>

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January</b>	56	183	660
Provision for/(reversal of provision for) obsolete inventories (Note 7)	<u>127</u>	<u>477</u>	<u>(167)</u>
<b>At 31 December</b>	<u><u>183</u></u>	<u><u>660</u></u>	<u><u>493</u></u>

## 16 FINANCIAL INSTRUMENTS BY CATEGORIES

		<u>As at 31 December</u>		
		<u>2011</u>	<u>2012</u>	<u>2013</u>
	Note	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets as per combined statements of financial position</b>				
Loans and receivables				
— Trade receivables	17	49,531	49,245	66,414
— Deposits and other receivables	18	27,170	32,528	38,603
— Amounts due from related companies	27	7,402	97,773	103,867
— Amounts due from directors	28	31,773	35,068	43,338
— Restricted cash	19	17,184	21,028	31,073
— Cash and cash equivalents	19	<u>54,582</u>	<u>43,249</u>	<u>64,738</u>
<b>Liabilities as per combined statements of financial position</b>				
Other financial liabilities subsequently measured at amortised cost				
— Trade and bill payables	22	29,457	33,138	34,863
— Accruals and other payables (excluding non-financial liabilities)	23	41,370	46,031	46,060
— Amounts due to related companies	27	82	101	19,082
— Amounts due to directors	28	10,422	9,421	9,784
— Bank borrowings	26	68,565	116,907	100,156
— Obligation under finance leases		<u>93</u>	<u>—</u>	<u>3,388</u>

## 17 TRADE RECEIVABLES

		<u>As at 31 December</u>		
		<u>2011</u>	<u>2012</u>	<u>2013</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		50,981	50,691	68,158
Less: Provision for impairment of trade receivables		<u>(1,450)</u>	<u>(1,446)</u>	<u>(1,744)</u>
Trade receivables, net		<u><u>49,531</u></u>	<u><u>49,245</u></u>	<u><u>66,414</u></u>

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 31 December 2011, 2012 and 2013, the ageing analysis of the trade receivables, based on invoice date, is as follows:

		<u>As at 31 December</u>		
		<u>2011</u>	<u>2012</u>	<u>2013</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days		23,408	23,462	31,585
31–90 days		18,592	18,127	27,042
Over 90 days		<u>7,531</u>	<u>7,656</u>	<u>7,787</u>
		<u><u>49,531</u></u>	<u><u>49,245</u></u>	<u><u>66,414</u></u>

As at 31 December 2011, 2012 and 2013, trade receivables of HK\$14,013,000, HK\$16,464,000 and HK\$20,460,000 were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables, based on due date, is as follows:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>Overdue</b>			
Less than 30 days	6,497	11,438	11,505
31–90 days	4,724	4,150	7,509
Over 90 days	2,792	876	1,446
	<u>14,013</u>	<u>16,464</u>	<u>20,460</u>

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	36,295	38,014	47,675
RMB	13,236	11,231	18,739
	<u>49,531</u>	<u>49,245</u>	<u>66,414</u>

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January</b>	480	1,450	1,446
Provision for impairment of trade receivables (Note 7)	970	—	298
Reversal of provision for impairment of trade receivables (Note 7)	—	(4)	—
<b>At 31 December</b>	<u>1,450</u>	<u>1,446</u>	<u>1,744</u>

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the combined statements of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The Group does not hold any collateral as security.

## 18 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>Non-current portion</b>			
Prepayments	3,778	7,105	1,718
Rental deposits and other deposits	16,659	15,594	14,094
	<u>20,437</u>	<u>22,699</u>	<u>15,812</u>
<b>Current portion</b>			
Prepayments	3,262	2,989	6,517
Security deposit for legal case	550	550	550
Rental deposits and other deposits	4,259	8,418	14,044
Value-added tax recoverable	3,129	5,682	4,965
Other receivables	2,573	2,284	4,950
<b>Total</b>	<u>13,773</u>	<u>19,923</u>	<u>31,026</u>



The carrying amounts of the deposits and other receivables are denominated in the following currencies:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	19,297	21,473	24,985
RMB	7,873	11,055	13,618
	<u>27,170</u>	<u>32,528</u>	<u>38,603</u>

#### 19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Pledged bank deposits ( <i>Note (a)</i> )	17,184	19,886	22,031
Bank deposit with original maturity over 3 months	—	1,142	9,042
Cash and cash equivalents	<u>54,582</u>	<u>43,249</u>	<u>64,738</u>
Total	<u>71,766</u>	<u>64,277</u>	<u>95,811</u>

Notes:

- (a) The pledged bank deposits are held in designated bank accounts mainly for the Group's banking facilities (*Note 26*).
- (b) The carrying amounts of pledged deposits, bank deposits with original maturity over 3 months and cash and cash equivalents are denominated in the following currencies:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	56,692	45,789	70,377
USD	78	120	681
RMB	<u>14,996</u>	<u>18,368</u>	<u>24,753</u>
	<u>71,766</u>	<u>64,277</u>	<u>95,811</u>

RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business in the PRC.

- (c) Cash and cash equivalents and bank overdrafts include the following for the purposes of the combined statements of cash flows:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Cash and cash equivalents in the combined statements of financial position	54,582	43,249	64,738
Less: Bank overdrafts ( <i>Note 26</i> )	<u>(16,743)</u>	<u>(20,466)</u>	<u>(7)</u>
Cash and cash equivalents in the combined statements of cash flows	<u>37,839</u>	<u>22,783</u>	<u>64,731</u>

## 20 RESERVES

## (a) Capital reserve

As mentioned in Note 2 above, the Financial Information has been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2011, 2012 and 2013. The capital reserves during the Relevant Periods represent the combined share capital of the companies comprising the Group after elimination of investments in subsidiaries.

## (b) Statutory reserves

According to the provisions of the articles of association of the Group's subsidiaries located in the PRC ("PRC subsidiaries"), the PRC subsidiaries shall first set aside 10% of its profit attributable to equity holders after tax as indicated in their statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered share capital) in each year. The PRC subsidiaries may also make appropriations from its profit attributable to shareholders to a discretionary surplus reserve, provided it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from the shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good for any losses of the PRC subsidiaries from previous years, the current year profit attributable to the equity holders shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve. The statutory surplus reserve, the discretionary surplus reserve and the share premium of the PRC subsidiaries account may be converted into share capital of the PRC subsidiaries provided it is approved by a resolution passed in a shareholders' general meeting and meets other regulatory requirements with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital amount.

As at 31 December 2011, 2012 and 2013, retained earnings comprised statutory reserves fund amounting to HK\$22,000, HK\$72,000 and HK\$333,000, respectively.

## 21 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax assets			
— to be recovered after more than 12 months	7,296	4,094	4,629
— to be recovered within 12 months	<u>2,667</u>	<u>2,289</u>	<u>63</u>
	<u>9,963</u>	<u>6,383</u>	<u>4,692</u>
Deferred income tax liabilities			
— to be recovered after more than 12 months	<u>234</u>	<u>185</u>	<u>286</u>

The net movement on the deferred income tax account is as follows:

	<b>Total</b>
	<i>HK\$'000</i>
<b>At 1 January 2011</b>	8,270
Credited to the combined statements of comprehensive income (Note 10)	1,689
Exchange differences	<u>(230)</u>
<b>At 31 December 2011/1 January 2012</b>	9,729
Charged to the combined statements of comprehensive income (Note 10)	(3,762)
Exchange differences	<u>231</u>
<b>At 31 December 2012/1 January 2013</b>	6,198
Charged to the combined statements of comprehensive income (Note 10)	(1,792)
Exchange differences	<u>—</u>
<b>At 31 December 2013</b>	<u>4,406</u>

The gross movement in deferred income tax assets and liabilities during the years, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred income tax assets**

	<b>Decelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2011	1,571	6,770	8,341
Credited to combined statements of comprehensive income ( <i>Note 10</i> )	1,741	111	1,852
Exchange differences	—	(230)	(230)
At 31 December 2011	3,312	6,651	9,963
Credited/(charged) to combined statements of comprehensive income ( <i>Note 10</i> )	769	(4,580)	(3,811)
Exchange differences	—	231	231
At 31 December 2012	4,081	2,302	6,383
Credited/(charged) to combined statements of comprehensive income ( <i>Note 10</i> )	534	(2,225)	(1,691)
Exchange differences	—	—	—
At 31 December 2013	<u>4,615</u>	<u>77</u>	<u>4,692</u>

**Deferred income tax liabilities**

	<b>Accelerated tax depreciation and others</b>
	<i>HK\$'000</i>
At 1 January 2011	(71)
Charged to combined statements of comprehensive income ( <i>Note 10</i> )	(163)
At 31 December 2011	(234)
Credited to combined statements of comprehensive income ( <i>Note 10</i> )	49
At 31 December 2012	(185)
Charged to combined statements of comprehensive income ( <i>Note 10</i> )	(101)
At 31 December 2013	<u>(286)</u>

Deferred income tax assets are recognised for tax losses carry forward purposes only to the extent that realisation of the related tax benefits through future taxable profit is probable.

The Group did not recognise deferred income tax assets of HK\$3,403,000, HK\$5,460,000 and HK\$6,916,000 as at 31 December 2011, 2012 and 2013 in respect of tax losses in Hong Kong and in the PRC.

The Group has unrecognised tax losses of HK\$5,301,000, HK\$6,687,000 and HK\$7,786,000 as at 31 December 2011, 2012 and 2013, respectively, to carry forward against future profit in Hong Kong. These tax losses afore-mentioned are subject to final approval by the Inland Revenue Department in Hong Kong and can be carried forward indefinitely.

The Group has unrecognised tax losses of HK\$10,115,000, HK\$17,428,000 and HK\$22,527,000 as at 31 December 2011, 2012 and 2013, respectively, to carry forward against future profit in the PRC. These tax losses expire in the following years:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Expiry year:			
Year 2015	1,486	1,486	1,486
Year 2016	8,629	8,629	8,629
Year 2017	—	7,313	7,313
Year 2018	—	—	5,099
	<u>10,115</u>	<u>17,428</u>	<u>22,527</u>

The Group has no undistributed earnings for subsidiaries in PRC as at 31 December 2011.

As at 31 December 2012 and 2013, management is of the view that undistributed earnings of certain subsidiaries in the PRC totalling HK\$1,178,000 and HK\$4,405,000 respectively, are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of HK\$59,000 and HK\$220,000 have not been recognised as at 31 December 2012 and 2013, respectively, for the withholding tax that would be payable on the undistributed profits of subsidiaries in the PRC.

The Group is able to control the timing of reversal of the temporary differences and the temporary differences will not be reversed in the foreseeable future.

## 22 TRADE AND BILL PAYABLES

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade payables	23,967	26,751	28,456
Bill payables	5,490	6,387	6,407
	<u>29,457</u>	<u>33,138</u>	<u>34,863</u>

As at 31 December 2011, 2012 and 2013, the ageing analysis of the trade and bill payables, based on invoice date, is as follows:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
0 to 30 days	19,596	21,112	33,564
31 to 60 days	5,614	6,631	438
61 to 90 days	2,660	2,877	75
Over 90 days	1,587	2,518	786
	<u>29,457</u>	<u>33,138</u>	<u>34,863</u>

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	12,652	10,362	7,629
RMB	16,805	22,776	27,234
	<u>29,457</u>	<u>33,138</u>	<u>34,863</u>

## 23 ACCRUALS AND OTHER PAYABLES

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Accruals for employee benefit expenses	14,296	18,365	19,246
Accruals for marketing and promotional expenses	4,689	5,069	2,933
Accruals for sales rebate	1,141	1,048	994
Rental and other store expenses payable	11,063	11,836	11,192
Office and utilities expenses payable	3,688	3,676	3,057
Deferred revenue	271	290	332
Other accruals and other payables	7,634	7,085	9,632
	<u>42,782</u>	<u>47,369</u>	<u>47,386</u>

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	35,977	39,690	36,287
RMB	6,805	7,679	11,099
	<u>42,782</u>	<u>47,369</u>	<u>47,386</u>

As at 31 December 2011, 2012 and 2013, the carrying amounts of accruals and other payables approximate their fair values.

## 24 PROVISION FOR REINSTATEMENT COSTS

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>Non-current</b>			
Provision for reinstatements costs	4,012	3,773	1,540
<b>Current</b>			
Provision for reinstatements costs	1,008	1,471	3,730
	<u>5,020</u>	<u>5,244</u>	<u>5,270</u>

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

	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January</b>	4,429	5,020	5,244
Additional provision during the year	724	281	475
Actual cost paid	(133)	(57)	(364)
Reversal of provision	—	—	(85)
<b>At 31 December</b>	<u>5,020</u>	<u>5,244</u>	<u>5,270</u>

## 25 RECEIPTS IN ADVANCE

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Receipts in advance	78,395	73,222	105,521

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January</b>	49,438	78,395	73,222
Sales of pre-paid coupons and credits during the year ( <i>Note a</i> )	187,061	196,539	245,775
Revenue recognised upon the redemption of products by customers ( <i>Note b</i> )	(154,281)	(189,346)	(203,248)
Revenue recognised upon expiry of pre-paid coupons and credits ( <i>Note c</i> )	(3,848)	(12,411)	(10,306)
Exchange differences	<u>25</u>	<u>45</u>	<u>78</u>
<b>At 31 December</b>	<u><u>78,395</u></u>	<u><u>73,222</u></u>	<u><u>105,521</u></u>

*Note:*

- (a) The amounts represent receipts from sales of herbal drinks and other pantry product during the years which are settled via credit cards, Electronic Payment System ("EPS") and cash.
- (b) The amounts represent revenue recognised in statements of comprehensive income as a result of redemption of products by customers during the year.
- (c) The amounts represent revenue recognised in statements of comprehensive income for prepaid coupons and credits expired in accordance with the contractual periods stipulated in the respective terms and conditions.

## 26 BANK BORROWINGS

	<u>As at 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts ( <i>Note 19</i> )	16,743	20,466	7
Bank loans:			
Portion due for repayment within 1 year	27,447	42,807	77,120
Portion due for repayment after 1 year but within 5 years which contain a repayment on demand clause	24,375	53,634	—
Portion due for repayment after 1 year but within 5 years without repayment on demand clause	<u>—</u>	<u>—</u>	<u>23,029</u>
	<u><u>68,565</u></u>	<u><u>116,907</u></u>	<u><u>100,156</u></u>

Bank loans due for repayment after one year which contain a repayment on demand clause are classified as current liabilities.

Bank overdrafts are repayable within the next 12 months as at 31 December 2011, 2012 and 2013. Bank loans due for repayment, based on the scheduled repayment dates set out in the loan agreements and without taking into account the effect of any repayment on demand clause are as follows:

	<u>As at 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans:			
Within 1 year	27,447	42,807	77,120
Between 1 and 2 years	7,788	24,098	7,590
Between 2 and 5 years	<u>16,587</u>	<u>29,536</u>	<u>15,439</u>
	<u><u>51,822</u></u>	<u><u>96,441</u></u>	<u><u>100,149</u></u>

The bank borrowings facilities granted to the Group are secured by the following:

- (a) A legal charge on the properties of a related company;

- (b) Joint and several personal guarantees executed by the directors of the Company (Note 27 (c));
- (c) Corporate guarantees given by certain subsidiaries;
- (d) An assignment of rental for the premises of a related company;
- (e) Pledge of time deposit (Note 19);
- (f) Pledge of investment property (Note 14).

The carrying amounts of bank borrowings approximate their fair values.

The weighted average interest rates are 5.3%, 5.5% and 4.1% as at 31 December 2011, 2012 and 2013, respectively.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$	51,510	105,692	91,971
RMB	17,055	11,215	8,185
	<u>68,565</u>	<u>116,907</u>	<u>100,156</u>

## 27 RELATED PARTIES BALANCES AND TRANSACTIONS

For the purposes of these combined financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following companies were related parties that had transactions or balances with the Group during the years ended 31 December 2011, 2012 and 2013:

<u>Name of the related party</u>	<u>Relationship with the Group</u>
Action Rich Investment Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Hung Fook Tong International Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Hung Fook Tong China Trading Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Hung Fook Tong International Holdings Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Hung Fook Tong Industrial Co. Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Millions & Millions Investment Limited	Controlled by a shareholder of Hung Fook Tong Holdings Limited
Aqua Pure Distilled Water Company Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Sky Kingdom Properties Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
A.P. Logistics Co., Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Tees Beverage (H.K.) Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Imperial Food Products Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Smooth Richtop Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Taclon Industries Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Rainbow Hero Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Charter Firm Development Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited
Hung Fook Tong (BVI) Holdings Limited	Controlled by certain shareholders of Hung Fook Tong Holdings Limited

### Amounts due from/(to) related companies

Current portion of amounts due from/(to) the related companies are unsecured, interest-free and repayable on demand, except amount due to Action Rich Investment Limited is unsecured, bears an interest of 5% and repayable on demand.

Non-current portion of amounts due from related companies are unsecured, bear interest of 5% with a term over 12 months.

The Group had the following material trade and non-trade balances due from related parties:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Balance included in current portion — Trade			
— Action Rich Investment Limited	479	772	—
	<u>479</u>	<u>772</u>	<u>—</u>
(b) Balance included in current portion — Non trade			
— Hung Fook Tong International Limited	159	775	—
— Hung Fook Tong (BVI) Holdings Limited	39	47	—
— Millions & Millions Investment Limited	10	10	—
— Hung Fook Tong China Trading Limited	16	23	30
— Hung Fook Tong Industrial Co. Limited	819	13,196	41,827
— Aqua Pure Distilled Water Company Limited	—	1	149
— Taclon Industries Limited	—	—	206
	<u>1,043</u>	<u>14,052</u>	<u>42,212</u>
(c) Balance included in non-current portion — Loan advance			
— Action Rich Investment Limited	5,880	5,880	—
— Hung Fook Tong Industrial Co. Limited	—	77,069	61,655
	<u>5,880</u>	<u>82,949</u>	<u>61,655</u>

Amounts due from related parties are denominated in Hong Kong dollars.

The amounts due from related parties will be settled against the consideration in related to the acquisition of Taclon Industries Limited on 26 March 2014 (Note 31).

The Group had the following material trade and non-trade balances due to related parties:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Balance included in current portion — Non-trade			
— Sky Kingdom Properties Ltd	8	8	8
— A.P. Logistics Co., Limited	74	93	—
— Action Rich Investment Limited	—	—	19,074
	<u>82</u>	<u>101</u>	<u>19,082</u>

Amounts due to related parties are denominated in Hong Kong dollars.



## Related parties transactions

## (a) Transactions with related parties

The following transactions were undertaken by the Group with related parties during the Relevant Periods:

## (i) Continuing transactions

	For the year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Rental expenses paid for office premises			
— Action Rich Investment Limited	(540)	(540)	(540)
— A.P. Logistics Co., Limited	—	—	(6)
	<u>—</u>	<u>—</u>	<u>(6)</u>
Logistic services expenses			
— A.P. Logistics Co., Limited	—	(1,814)	(1,943)
	<u>—</u>	<u>(1,814)</u>	<u>(1,943)</u>
Purchase of bottled water			
— Aqua Pure Distilled Water Company Limited	—	—	410
	<u>—</u>	<u>—</u>	<u>410</u>

## (ii) Non-continuing transactions

	For the year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Loan advance			
— Action Rich Investment Limited	3,700	—	—
— Hung Fook Tong Industrial Co. Limited	—	85,938	—
	<u>3,700</u>	<u>85,938</u>	<u>—</u>
Interest income received			
— Action Rich Investment Limited	—	293	154
— Hung Fook Tong Industrial Co. Limited	—	2,569	3,853
	<u>—</u>	<u>2,862</u>	<u>4,007</u>
Rental expenses paid for retail outlets			
— Rainbow Hero Limited	(1,200)	(1,200)	(200)
	<u>(1,200)</u>	<u>(1,200)</u>	<u>(200)</u>
Consultancy fee paid			
— Charter Firm Development Limited	(138)	(144)	(36)
	<u>(138)</u>	<u>(144)</u>	<u>(36)</u>

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

## (b) 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:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	6,209	7,384	10,336
Pension costs	156	179	195
	<u>6,365</u>	<u>7,563</u>	<u>10,531</u>

**(c) Guarantee by key directors**

The bank borrowings and obligation under finance leases facilities were supported by personal guarantee provided by the directors of the Company to the extent as follows:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Kwan, Mr. Tse Po Shing, Mr. PT Tse and Ms. Wong	67,324	116,421	103,545

**28 AMOUNTS DUE FROM/(TO) DIRECTORS****Amounts due from directors**

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Kwan	3,098	3,002	7,125
Mr. Tse Po Shing	—	—	346
Mr. PT Tse	11,738	13,610	14,883
Dr. Szeto Wing Fu	8,272	9,172	9,577
Ms. Wong	8,665	9,284	11,407
	<u>31,773</u>	<u>35,068</u>	<u>43,338</u>

Maximum amounts due from directors outstanding during the year were as follows:

	<b>For the year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Kwan	3,098	4,110	7,125
Mr. Tse Po Shing	—	—	346
Mr. PT Tse	11,738	13,610	14,883
Dr. Szeto Wing Fu	8,272	9,172	9,577
Ms. Wong	8,665	9,284	11,407

**Amounts due to directors**

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Kwan	7,512	9,245	9,731
Mr. Tse Po Shing	721	146	23
Mr. PT Tse	15	15	15
Ms. Wong	2,174	15	15
	<u>10,422</u>	<u>9,421</u>	<u>9,784</u>

The amounts due from/(to) the directors are unsecured, interest-free and repayable on demand. These balances are denominated in HK\$.

## 29 NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

## (a) Reconciliation of profit before income tax to cash generated from operations

	Note	Year ended 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
Profit before income tax		9,532	48,115	48,521
Adjustments for:				
Interest income		(162)	(3,124)	(4,303)
Interest paid		2,831	5,942	6,304
(Gains)/losses on disposal of property, plant and equipment	29(b)	(2,025)	37	64
Depreciation of property, plant and equipment	13	17,335	16,788	17,360
Impairment of property, plant and equipment	13	—	1,584	—
Depreciation of investment property	14	29	29	29
Reversal of provision for reinstatement costs	24	—	—	85
Provision of/(reversal of provision for) obsolete inventories	15	127	477	(167)
Impairment loss on trade receivables	17	970	—	298
Reversal of provision for trade receivables	17	—	(4)	—
		28,637	69,844	68,191
Changes in working capital:				
Increase in inventories		(6,391)	(1,974)	(6,708)
(Increase)/decrease in trade receivables		(17,126)	290	(17,467)
Increase in prepayments, deposits and other receivables		(6,199)	(8,412)	(9,603)
(Increase)/decrease in trade and bill payables		(8,799)	3,681	1,725
Increase/(decrease) in accruals and other payables and receipts in advance		41,762	(756)	31,864
<b>Cash generated from operations</b>		<b>31,884</b>	<b>62,673</b>	<b>68,002</b>

## (b) Disposal of property, plant and equipment

	Note	Year ended 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
<b>Property, plant and equipment</b>				
Net book value (Note)		837	270	85
Gains/(losses) on disposal of property, plant and equipment	6	2,025	(37)	(64)
<b>Proceeds from disposal of property, plant and equipment</b>		<b>2,862</b>	<b>233</b>	<b>21</b>

Note:

Non-cash transaction:

During the year ended 31 December 2013, property, plant and equipment amounted to approximately HK\$1,918,000 is disposed and settled through the current accounts with director.

**30 COMMITMENTS****(a) Operating leases commitments**

*As lessee*

The Group had future aggregate minimum lease payments in relation of retail outlets, storage spaces and office premises under non-cancellable operating lease as follows:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than 1 year	73,074	79,026	65,661
Later than 1 year and no later than 5 years	96,672	75,488	61,036
	<u>169,746</u>	<u>154,514</u>	<u>126,697</u>

The leases have varying terms and escalation clauses. The operating lease rentals of certain outlets are based on the higher of a minimum guaranteed rental or a sales-level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

**(b) Capital commitments**

As at 31 December 2011, 2012 and 2013, the Group had the following capital expenditure contracted but net yet incurred and provided for is as follows:

	<b>As at 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for Property, plant and equipment	<u>4,872</u>	<u>1,316</u>	<u>3,441</u>

**31 SUBSEQUENT EVENTS**

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2013:

- (i) On 28 January 2014, the Group entered into a sale and purchase agreement with Mr. Kwan to dispose of its 51% issued shares of Gaoda Plastic Bottle (Shenzhen) Company Limited ("Gaoda Shenzhen") at a consideration of HK\$1,570,000. The consideration was determined by the carrying amount of Gaoda Shenzhen and settled by cash.
- (ii) On 14 March 2014, the Group completed the Reorganisation in preparing for the listing (Note 1.2).
- (iii) On 26 March 2014, the Group entered into an agreement with Hung Fook Tong Industrial Co. Limited and two directors of the Company to acquire the entire issued share capital of Taclon Industries Limited at a consideration of approximately HK\$82,568,000, which holds a factory premise and a leasehold land in Tai Po. This is considered an asset acquisition. The consideration will be satisfied by settlement of the balances with Hung Fook Tong Industrial Co. Limited, directors and companies controlled by the directors.
- (iv) In June 2014, the Company declared and paid interim dividend of HK\$40,000,000 to the shareholders.
- (v) Pursuant to the written resolution passed by the shareholders on 11 June 2014, the conditional on the share premium account of the Company being credited as a result of the global offering, the directors were authorised to capitalise an amount of HK\$4,730,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 473,000,000 Shares for allotment and issue to the shareholders in proportion to their respective shareholdings.

**32 FINANCIAL INFORMATION OF THE COMPANY**

As at 31 December 2013, the Company has not been incorporated and, accordingly, it had no assets, liabilities or distributable reserves on that day.

**III SUBSEQUENT FINANCIAL INFORMATION**

No audited financial statements have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2013. Save as disclosed in Note 31(iv) of Section II above, no dividend or distribution has been declared or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2013.

Yours faithfully,

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

23 June 2014

The Directors  
Hung Fook Tong Group Holdings Limited

Crosby Securities Limited

Dear Sirs,

We report on the financial information of Taclon Industries Limited (the "Target"), which comprises the statements of financial position of the Target as at 31 March 2012, 31 December 2012 and 31 December 2013, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Target for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Hung Fook Tong Group Holdings Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix IB to the prospectus of the Company dated 23 June 2014 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Target was incorporated in Hong Kong on 15 December 1972 with limited liability.

The financial statements of the Target for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013 were audited by F.S. Li & Co., Certified Public Accountants.

The directors of the Target have prepared the financial statements of the Target for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing (the "HKSAAs") issued by the HKICPA pursuant to separate terms of engagement with the Target.

The directors of the Target during the Relevant Periods are responsible for the preparation of the Underlying Financial Statements of the Target that give a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

**DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company as set out in Appendix IA to the prospectus of the Company.

**REPORTING ACCOUNTANT'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

**BASIS FOR QUALIFIED OPINION**

Included in the statement of financial position of the Target as at 31 March 2012 were amounts due to ex-directors and their related parties totalling \$32,080,945. The Target's accounting records do not provide sufficient evidence supporting the transactions that made up these balances. In addition, we were unable to obtain direct confirmations of these balances from the respective counterparties to verify the existence and accuracy of these balances as at 1 April 2011 and 31 March 2012. There were no satisfactory alternative audit procedures that we could perform to satisfy ourselves as to whether these balances were free from material misstatement. As a result, we were unable to determine whether any adjustments would be required in respect of these balances and the related elements making up the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended 31 March 2012 and the nine months ended 31 December 2012, and the related disclosures thereof in the financial information.

**QUALIFIED OPINION**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target as at 31 March 2012, 31 December 2012 and 31 December 2013 and of the Target's results and cash flows for the Relevant Periods then ended.

## I. FINANCIAL INFORMATION OF THE TARGET

The following is the financial information of the Target prepared by the directors of the Company as at 31 March 2012, 31 December 2012 and 31 December 2013, and for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013 (the "Financial Information"):

## Statements of Comprehensive Income

		<b>Year ended</b>	<b>Nine months</b>	<b>Year ended</b>
		<b>31 March</b>	<b>ended</b>	<b>31 December</b>
		<b>2012</b>	<b>31 December</b>	<b>2013</b>
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Other income	5	7,105,389	1,682,481	2,176,862
Other gains, net	5	37,015	79,074	318,053
Administrative expenses	6	(226,570)	(576,065)	(548,296)
Other operating expenses	6	<u>(3,391,478)</u>	<u>(1,681,293)</u>	<u>(1,979,534)</u>
<b>Operating profit/(loss)</b>		3,524,356	(495,803)	(32,915)
Finance costs	7	<u>(4,447,311)</u>	<u>(2,826,254)</u>	<u>(3,048,431)</u>
<b>Loss before income tax</b>		(922,955)	(3,322,057)	(3,081,346)
Income tax expense	8	<u>—</u>	<u>—</u>	<u>—</u>
<b>Loss and total comprehensive loss for the year/period attributable to equity holders of the Target</b>		<u><u>(922,955)</u></u>	<u><u>(3,322,057)</u></u>	<u><u>(3,081,346)</u></u>



## Statements of Financial Position

	Note	As at	As at 31 December	
		31 March	2012	2013
		2012	2012	2013
		HK\$	HK\$	HK\$
<b>ASSETS</b>				
<b>Non-current assets</b>				
Leasehold land and land use right	9	8,128,353	7,954,174	15,361,997
Property, plant and equipment	9a	<u>27,723,097</u>	<u>27,650,560</u>	<u>43,583,747</u>
		<u>35,851,450</u>	<u>35,604,734</u>	<u>58,945,744</u>
<b>Current assets</b>				
Prepayments, deposits and other receivables		146,000	280,722	103,030
Amounts due from related companies	16	11,911,086	15,052,730	21,730,174
Cash and cash equivalents	11	<u>507</u>	<u>368,496</u>	<u>13,559,901</u>
		<u>12,057,593</u>	<u>15,701,948</u>	<u>35,393,105</u>
<b>Total assets</b>		<u>47,909,043</u>	<u>51,306,682</u>	<u>94,338,849</u>
<b>Equity</b>				
Share capital	12	34,848,500	34,848,500	100,700,100
Accumulated losses		<u>(98,343,324)</u>	<u>(101,665,381)</u>	<u>(104,746,727)</u>
<b>Total shareholder's deficit</b>		<u>(63,494,824)</u>	<u>(66,816,881)</u>	<u>(4,046,627)</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Amount due to a related company	16	—	69,500,822	7,157,494
Bank borrowings	15	<u>—</u>	<u>—</u>	<u>35,833,333</u>
		<u>—</u>	<u>69,500,822</u>	<u>42,990,827</u>
<b>Current liabilities</b>				
Accruals and other payables	14	38,918,935	1,801,056	1,582,540
Amounts due to related companies	16	1,444,722	46,821,685	49,645,442
Amounts due to ex-directors and their related parties	17	32,080,945	—	—
Bank borrowings	15	<u>38,959,265</u>	<u>—</u>	<u>4,166,667</u>
		<u>111,403,867</u>	<u>48,622,741</u>	<u>55,394,649</u>
<b>Total liabilities</b>		<u>111,403,867</u>	<u>118,123,563</u>	<u>98,385,476</u>
<b>Total equity and liabilities</b>		<u>47,909,043</u>	<u>51,306,682</u>	<u>94,338,849</u>
<b>Net current liabilities</b>		<u>(99,346,274)</u>	<u>(32,920,793)</u>	<u>(20,001,544)</u>
<b>Total assets less current liabilities</b>		<u>(63,494,824)</u>	<u>2,683,941</u>	<u>38,944,200</u>

## Statements of Changes in Equity

	<u>Attributable to equity holders of the Target</u>		
	<u>Share capital</u>	<u>Accumulated</u> <u>losses</u>	<u>Total</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>For the year ended 31 March 2012</b>			
Balance at 1 April 2011	34,848,500	(97,420,369)	(62,571,869)
<b>Comprehensive income</b>			
Loss for the year	—	(922,955)	(922,955)
<b>Total comprehensive income for the year</b>	—	(922,955)	(922,955)
<b>Balance at 31 March 2012</b>	<u>34,848,500</u>	<u>(98,343,324)</u>	<u>(63,494,824)</u>
<b>For the nine months ended 31 December 2012</b>			
<b>Comprehensive income</b>			
Loss for the period	—	(3,322,057)	(3,322,057)
<b>Total comprehensive income for the period</b>	—	(3,322,057)	(3,322,057)
<b>Balance at 31 December 2012</b>	<u>34,848,500</u>	<u>(101,665,381)</u>	<u>(66,816,881)</u>
<b>For the year ended 31 December 2013</b>			
Issue of shares	65,851,600	—	65,851,600
<b>Comprehensive income</b>			
Loss for the year	—	(3,081,346)	(3,081,346)
<b>Total comprehensive income for the year</b>	—	(3,081,346)	(3,081,346)
<b>Balance at 31 December 2013</b>	<u>100,700,100</u>	<u>(104,746,727)</u>	<u>(4,046,627)</u>

## Statements of Cash Flows

	Year ended 31 March 2012	Nine months ended 31 December 2012	Year ended 31 December 2013
<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Cash flows used in operating activities</b>			
Net cash used in operations	18(a) <u>(4,107,859)</u>	<u>(4,144,873)</u>	<u>(1,761,116)</u>
Net cash flows used in operating activities	----- (4,107,859) -----	----- (4,144,873) -----	----- (1,761,116) -----
<b>Cash flows from investing activities</b>			
Payment for leasehold land	—	—	(7,640,060)
Purchase of property, plant and equipment	—	(676,542)	(15,709,306)
Proceeds from disposal of property, plant and equipment	18(b) 37,015	79,074	318,053
Repayment from/(advances to) related companies	<u>3,975,352</u>	<u>(1,459,163)</u>	<u>(4,500,582)</u>
Net cash generated from/(used in) investing activities	----- 4,012,367 -----	----- (2,056,631) -----	----- (27,531,895) -----
<b>Cash flows from financing activities</b>			
Proceeds from new borrowings	—	—	40,000,000
Repayment of bank loans	—	(38,832,095)	—
Advances from related companies	—	80,138,919	3,342,112
Interest paid	<u>(11,715)</u>	<u>(34,610,161)</u>	<u>(857,696)</u>
Net cash (used in)/generated from financing activities	----- (11,715) -----	----- 6,696,663 -----	----- 42,484,416 -----
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year/period	(107,207)	495,159	13,191,405
	<u>(19,456)</u>	<u>(126,663)</u>	<u>368,496</u>
<b>Cash and cash equivalents at end of year/period</b>	18(c) <u><u>(126,663)</u></u>	<u><u>368,496</u></u>	<u><u>13,559,901</u></u>

## II NOTES TO THE FINANCIAL INFORMATION

### 1 GENERAL INFORMATION

Taclon Industries Limited (the "Target") is a limited liabilities company incorporated in Hong Kong. The address of its registered office is 11–13 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

The Target does not earn any rental income from holding the factory premise and leasehold land. It has no business but only provides management and other services to related companies. The Target has no business and therefore no segment information has been presented.

The Target was held by Mr. Chang Sau Man, Stephen and Ms. Chen Pei Lin, until 27 April 2012. Since 27 April 2012, the Target was 94.48% owned by Hung Fook Tong Industrial Co. Limited which in turn is owned by certain individual shareholders of the Company. Subsequently, Hung Fook Tong Industrial Co. Limited acquired the remaining interests in the Target which became a wholly-owned subsidiary of Hung Fook Tong Industrial Co. Limited in October 2013.

This financial information is presented in Hong Kong dollars, unless otherwise stated.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

#### 2.1 Basis of preparation

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and has been prepared under the historical cost convention.

The preparation of this financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to this financial information are disclosed in Note 4.

##### (a) Comparative information

Pursuant to a resolution of the Board of Directors of the Target dated 14 December 2012, the financial year end date of the Target has been changed from 31 March to 31 December to coincide with the financial year end date of its immediate holding company.

Accordingly, the financial information of the Target comprises the statements of financial position of the Target as at 31 March 2012, 31 December 2012 and 31 December 2013, and the statements of comprehensive income, the statements of changes in equity, the statements of cash flows and related notes thereto of the Target for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013 and the figures for the statements of comprehensive income, the statements of changes in equity, the statements of cash flows and related notes thereto are not comparable.

##### (b) Going concern

As at 31 March 2012, 31 December 2012 and 31 December 2013, the Target's current liabilities exceeded its current assets by HK\$99,346,274, HK\$32,920,793 and HK\$20,001,544 and has accumulated losses of HK\$98,343,324, HK\$101,665,381 and HK\$104,746,727 respectively and cash outflow from operations of HK\$4,107,859, HK\$4,144,873 and HK\$1,761,116 for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013, respectively. In addition, the Target has capital commitment in respect of property, plant and equipment totalling HK\$39,269,828.

Hung Fook Tong Industrial Co. Limited has agreed not to demand for Target's repayment of the balances of HK\$55,366,263 as at 31 December 2013 until the Target is financially capable to repay such amounts. In addition, upon the acquisition of the Target on 26 March 2014 (Note 21), the Company has confirmed its present intention to provide continuing financial support to the Target so as to enable the Target to meet its liabilities as and when they fall due and to continue its operation for the foreseeable future.

After taking into account the Target's budget and cash flow forecast, as well as the available banking facilities and the financial support mentioned above, the directors of the Company conclude there is a reasonable expectation that the Target will continue as a going concern. Consequently, the directors of the Company have prepared the financial information on a going concern basis.

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Target's accounting periods beginning on or after 1 January 2014 or later periods, but have not been early adopted by the Target.

		<b>Effective for annual periods beginning on or after</b>
HKFRS 9	Financial Instruments	effective date to be determined
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities	1 January 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	1 July 2014
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Impairment of Assets — Recoverable amount disclosures for non-financial assets	1 January 2014
HKAS 39 (Amendment)	Financial instruments: Recognition and Measurement	1 January 2014
HK(IFRIC)-Int 21	Levies	1 January 2014
Annual improvements 2010–2012	Several HKFRS standards	1 July 2014
Annual improvements 2011–2013	Several HKFRS standards	1 July 2014

The Company's management is in the process of making an assessment on the impact of these standards, amendments and interpretations to existing HKFRSs and is not yet in a position to state whether they will have a significant impact on the Target's results of operations and financial position.

## 2.2 Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial information of the Target are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). This financial information is presented in Hong Kong dollars ("HK\$"), which is the functional and presentation currency of the Target.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

## 2.3 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the statement of comprehensive income during the financial year in which they are incurred.

Construction in progress is stated at cost less accumulated impairment losses. Direct and indirect costs relating to the construction in progress, including borrowing costs during the construction period, are capitalised as the costs of the assets. Cost on completed construction work is then transferred to appropriate category of property, plant and equipment.

Depreciation of property, plant and equipment are calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	50 years or over unexpired period of lease, whichever is shorter
Leasehold improvements	3 to 7 years or remaining period of the lease, whichever is shorter
Furniture and fixtures	5 years
Plant and machinery	5 to 10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.5).

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amounts of the relevant assets, and are recognised within 'other gains, net' in the statement of comprehensive income.

#### **2.4 Leasehold land and land use rights**

The leasehold land and land use rights have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the costs of leasehold land and land use rights over their lease term.

#### **2.5 Impairment of non-financial assets**

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **2.6 Financial assets**

The Target classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables comprise other receivables, and deposit with original maturity over 3 months, amount due from the related companies, bank deposits and cash and cash equivalents in the statements of financial position (Note 2.9).

Regular way purchases and sales of financial assets are recognised on the trade-date-the date on which the Target commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Target has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

#### **2.7 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### **2.8 Impairment of financial assets**

The Target assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statements of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Target may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statements of comprehensive income.

## **2.9 Cash and cash equivalents**

Cash and cash equivalents include cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

## **2.10 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## **2.11 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Target has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## **2.12 Borrowings costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **2.13 Current and deferred income tax**

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) **Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statements of financial position date in the countries where the Target operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) **Deferred income tax**

*Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in this financial information. However, the deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(c) **Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.14 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Retirement benefit obligations*

The Target pays contributions to an independently administered fund on a mandatory basis in Hong Kong. The Target has no further payment obligations once the contributions have been paid. The contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Target and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Target in the independently administered fund.

## 2.15 Provisions

Provisions are recognised when the Target has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.



## 2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of rebates and discounts. Rebates and discounts granted to customers are classified as a reduction of revenue. The Target recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met.

Management income is recognised in the accounting period in which the services are rendered.

## 2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of comprehensive income on a straight-line basis over the period of lease.

# 3 FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

The Target'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 Target's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target's financial performance.

Financial risk management is carried out by the finance department under the supervision of the board of directors. The board provides principles for overall risk management.

### (a) Market risk

#### (i) Foreign exchange risk

Most of the income and expenditures of the Target are denominated in HK dollars and hence, the Target does not have any material foreign exchange exposure. The Target has not implemented or entered into any type of instruments or arrangements to hedge against currency exchange fluctuations for the year under review. As at 31 March 2012 and 31 December 2012 and 31 December 2013, the Target did not have any outstanding hedging instruments.

#### (ii) Cash flow interest rate risk

The Target's cash flow interest rate risk arises from bank balances and bank borrowings at floating interest rates. The interest rate profile of the Target's bank borrowings is disclosed in Note 15. The cash deposits placed with banks generate interest at the prevailing market interest rates.

As at 31 March 2012 and 31 December 2012 and 31 December 2013, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Target's pre-tax loss for the years would have been approximately HK\$194,147, HK\$96,158 and HK\$67,679 higher/lower, respectively, mainly attributable to the Target's exposure to interest rates on its variable rate bank balances and bank borrowings.

### (b) Credit risk

The credit risk of the Target mainly arises from other receivables, deposits, amounts due from related companies and bank balances.

The management considers that the Target has limited credit risk with its banks which are leading and reputable and are assessed as having low credit risk. As at 31 March 2012, 31 December 2012 and 31 December 2013, all bank balances are deposited with listed banks. The Target has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

Besides, the Target has obtained the Company's letter of support to confirm its intention to provide continuing financial support to the Target so as to enable the Target to meet its liabilities as and when they fall due and to continue its operation for the foreseeable future. Moreover, Hung Fook Tong Industrial Co. Limited has agreed not to demand for repayment of the balances due from the Target of HK\$114,873,235 and HK\$55,366,263 as at 31 December 2012 and 31 December 2013, respectively until the Target is financially capable to repay such balances.

The Target maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Target considers appropriate; and long term financing including long-term borrowings, which are also considered by the Target in its capital structuring. The Target aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Target to continue its business for the foreseeable future.

The table below analyses the non-derivative financial liabilities of the Target into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Target can be required to pay. Balance within 12 months equal their carrying balances as impact at discounting is not significant.

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>As at 31 March 2012</b>					
Accruals and other payables	37,918,935	—	—	—	37,918,935
Bank borrowings	38,959,265	—	—	—	38,959,265
Amounts due to related companies	1,444,722	—	—	—	1,444,722
Amounts due to ex-directors and their related parties	32,080,945	—	—	—	32,080,945
	<u>110,403,867</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>110,403,867</u>
<b>As at 31 December 2012</b>					
Accruals and other payables	801,056	—	—	—	801,056
Amounts due to related companies	50,695,607	10,865,430	30,279,365	42,705,305	134,545,707
	<u>51,496,663</u>	<u>10,865,430</u>	<u>30,279,365</u>	<u>42,705,305</u>	<u>135,346,763</u>
<b>As at 31 December 2013</b>					
Accruals and other payables	2,446,101	1,474,561	1,611,530	—	5,532,192
Bank borrowings	4,166,667	10,000,000	25,833,333	—	40,000,000
Amounts due to related companies	50,042,596	1,177,056	3,531,168	3,923,250	58,674,070
	<u>56,655,364</u>	<u>12,651,617</u>	<u>30,976,031</u>	<u>3,923,250</u>	<u>104,206,262</u>

### 3.2 Capital risk management

The Target's objectives when managing capital are to safeguard the Target's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Target uses bank borrowings and funding from related companies to finance its operations.

### 3.3 Fair value estimation

The carrying values of the Target's financial assets, including trade and other receivables, amounts due from directors and related parties and cash and cash equivalents, and financial liabilities, including trade and other payables, amounts due to related parties and bank borrowings, approximate their fair values due to their short maturities.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Target makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### (a) Useful lives, residual values and depreciation charges of property, plant and equipment

Management determines the estimated useful lives, residual values and depreciation charges for the Target's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

##### (b) Provision for impairment of receivables

The Target makes provision for impairment of receivables based on an assessment of the recoverability of receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and impairment is recognised in the year in which such estimate has been changed.

#### 5 OTHER INCOME AND OTHER GAINS, NET

The Target's other income recognised during the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013 are as follows:

##### Other income

		Year ended 31 March	Nine months ended 31 December	Year ended 31 December
		2012	2012	2013
	Note	HK\$	HK\$	HK\$
Management fee income	(i)	1,000,000	1,682,481	2,176,862
Recharge of expenses	(ii)	6,105,389	—	—
		<u>7,105,389</u>	<u>1,682,481</u>	<u>2,176,862</u>

##### Notes:

- (i) Amount represented management fee from its related companies for recharging expenses incurred in relation to the water production business of a related company.
- (ii) Amount represented recharge of current and prior year expenses charged to related companies at mutually agreed terms.

##### Other gains, net

	Year ended 31 March	Nine months ended 31 December	Year ended 31 December
	2012	2012	2013
	HK\$	HK\$	HK\$
Gains on disposal of property, plant and equipment	37,015	79,074	318,053
	<u>37,015</u>	<u>79,074</u>	<u>318,053</u>

## 6 EXPENSES BY NATURE

		Year ended 31 March	Nine months ended 31 December	Year ended 31 December
		2012	2012	2013
	Note	HK\$	HK\$	HK\$
Amortisation of leasehold land	9	232,239	174,179	232,237
Depreciation of property, plant and equipment	9a	990,341	749,079	1,051,192
Repair and maintenance		480,041	208,197	130,631
Employee benefit expenses (including director's emoluments)	6a	1,140,698	—	—
Rates and government rent		497,069	361,088	500,600
Building management fee		24,548	54,711	24,548
Legal and professional fee		137,570	528,325	523,142
Auditors' remuneration		27,000	18,300	15,500
Insurance		26,542	134,039	40,326
Others expenses		62,000	29,440	9,654
		<u>3,618,048</u>	<u>2,257,358</u>	<u>2,527,830</u>

## (a) Employee benefit expenses (including directors' emoluments)

		Year ended 31 March	Nine months ended 31 December	Year ended 31 December
		2012	2012	2013
		HK\$	HK\$	HK\$
Wages, salaries and bonuses		1,016,098	—	—
Retirement benefit costs and other employee benefits		124,600	—	—
		<u>1,140,698</u>	<u>—</u>	<u>—</u>

No directors received any fees or emoluments in respect of their services rendered to the Target for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013. There was no arrangement under which a director waived or agreed to waive any remuneration, and no emoluments were paid by the Target to the directors as an inducement to join or upon joining the Target, or as compensation for loss of office.

## 7 FINANCE COSTS

		Year ended 31 March	Nine months ended 31 December	Year ended 31 December
		2012	2012	2013
		HK\$	HK\$	HK\$
— Interest expenses on				
— Bank borrowings repayable within 1 year		4,447,311	172,883	130,476
— Bank borrowings repayable within 2 to 5 years		—	—	727,220
— Amount due to a related company repayable within 1 year		—	152,164	295,017
— Amount due to a related company repayable within 2 to 5 years		—	2,501,207	2,707,499
		<u>4,447,311</u>	<u>2,826,254</u>	<u>3,860,212</u>
Total interest expense		4,447,311	2,826,254	3,860,212
Less: Interest capitalised (Note a)		—	—	(811,781)
		<u>4,447,311</u>	<u>2,826,254</u>	<u>3,048,431</u>

Note a: The capitalisation rate of borrowings is 4.6% for the year ended 31 December 2013.

**8 INCOME TAX EXPENSE**

No provision for Hong Kong profits tax has been made in this financial information as the Target has no assessable profit for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013.

The taxation on the Target's loss before income tax differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	<u>Year ended 31 March</u>	<u>Nine months ended 31 December</u>	<u>Year ended 31 December</u>
	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Loss before income tax</b>	(922,955)	(3,322,057)	(3,081,346)
Tax calculated at 16.5%	(152,288)	(548,140)	(508,422)
Expenses not deductible for tax purposes	10,773	29,895	159,621
Utilisation of previously unrecognised tax losses	(142,256)	—	(73,856)
Tax losses not recognised	283,771	518,245	422,657
<b>Income tax expense</b>	<u>—</u>	<u>—</u>	<u>—</u>

**9 LEASEHOLD LAND AND LAND USE RIGHT**

The Target's interest in leasehold land and land use rights represents prepaid operating lease payments leases in Hong Kong between 10 to 50 years and their net book values are analysed as follows:

	<u>As at 31 March</u>	<u>As at 31 December</u>	<u>2013</u>
	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At beginning of year/period	8,360,592	8,128,353	7,954,174
Addition	—	—	7,640,060
Amortisation	(232,239)	(174,179)	(232,237)
At end of year/period	<u>8,128,353</u>	<u>7,954,174</u>	<u>15,361,997</u>

Amortisation of leasehold land of HK\$232,239, HK\$174,179 and HK\$232,237 have been charged 'other operating expenses' for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013, respectively.

## 9a PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold Improvements	Furniture and fixtures	Plant and machinery	Motor vehicles	Construction in Progress	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>At 1 April 2011</b>							
Cost	49,160,375	—	30,783,606	81,098,496	8,945,742	—	169,988,219
Accumulated depreciation and impairment	(20,546,804)	—	(30,783,606)	(80,998,629)	(8,945,742)	—	(141,274,781)
<b>Net book amount</b>	<b>28,613,571</b>	<b>—</b>	<b>—</b>	<b>99,867</b>	<b>—</b>	<b>—</b>	<b>28,713,438</b>
<b>Year ended 31 March 2012</b>							
Opening net book amount	28,613,571	—	—	99,867	—	—	28,713,438
Depreciation	(983,208)	—	—	(7,133)	—	—	(990,341)
<b>Closing net book amount</b>	<b>27,630,363</b>	<b>—</b>	<b>—</b>	<b>92,734</b>	<b>—</b>	<b>—</b>	<b>27,723,097</b>
<b>At 31 March 2012</b>							
Cost	49,160,375	—	—	107,000	2,215,533	—	51,482,908
Accumulated depreciation and impairment	(21,530,012)	—	—	(14,266)	(2,215,533)	—	(23,759,811)
<b>Net book amount</b>	<b>27,630,363</b>	<b>—</b>	<b>—</b>	<b>92,734</b>	<b>—</b>	<b>—</b>	<b>27,723,097</b>
<b>Nine months ended 31 December 2012</b>							
Opening net book amount	27,630,363	—	—	92,734	—	—	27,723,097
Additions	436,000	—	240,542	—	—	—	676,542
Depreciation	(738,986)	—	(4,743)	(5,350)	—	—	(749,079)
<b>Closing net book amount</b>	<b>27,327,377</b>	<b>—</b>	<b>235,799</b>	<b>87,384</b>	<b>—</b>	<b>—</b>	<b>27,650,560</b>
<b>At 31 December 2012</b>							
Cost	49,596,375	—	240,542	107,000	1,896,994	—	51,840,911
Accumulated depreciation	(22,268,998)	—	(4,743)	(19,616)	(1,896,994)	—	(24,190,351)
<b>Net book amount</b>	<b>27,327,377</b>	<b>—</b>	<b>235,799</b>	<b>87,384</b>	<b>—</b>	<b>—</b>	<b>27,650,560</b>
<b>Year ended 31 December 2013</b>							
Opening net book amount	27,327,377	—	235,799	87,384	—	—	27,650,560
Additions	—	6,000	305,751	167,501	—	16,505,127	16,984,379
Depreciation	(991,928)	(150)	(44,534)	(14,580)	—	—	(1,051,192)
<b>Closing net book amount</b>	<b>26,335,449</b>	<b>5,850</b>	<b>497,016</b>	<b>240,305</b>	<b>—</b>	<b>16,505,127</b>	<b>43,583,747</b>
<b>At 31 December 2013</b>							
Cost	49,596,375	6,000	546,293	274,501	1,896,994	16,505,127	68,825,290
Accumulated depreciation and impairment	(23,260,926)	(150)	(49,277)	(34,196)	(1,896,994)	—	(25,241,543)
<b>Net book amount</b>	<b>26,335,449</b>	<b>5,850</b>	<b>497,016</b>	<b>240,305</b>	<b>—</b>	<b>16,505,127</b>	<b>43,583,747</b>

The building as at 31 March 2012, 31 December 2012 and 31 December 2013 is situated in Hong Kong and is held under lease of over 50 years.

Depreciation of HK\$990,341, HK\$749,079 and HK\$1,051,192 have been charged 'other operating expenses' for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013, respectively.

## 10 FINANCIAL INSTRUMENTS BY CATEGORIES

	Note	As at	As at 31 December	
		31 March	2012	2013
		2012	2012	2013
		HK\$	HK\$	HK\$
<b>Assets as per statements of financial position</b>				
Loans and receivables				
— Deposits and other receivables		146,000	203,195	46,802
— Amounts due from related companies	16	11,911,086	15,052,730	21,730,174
— Cash and cash equivalents	11	507	368,496	13,559,901
<b>Liabilities as per statements of financial position</b>				
Other financial liabilities subsequently measured at amortised cost				
— Accruals and other payables (excluding non-financial liabilities)	14	38,918,935	1,801,056	1,582,540
— Amounts due to related companies	16	1,444,722	116,322,507	56,802,936
— Amounts due to ex-directors and their related parties	17	32,080,945	—	—
— Bank borrowings	15	38,959,265	—	40,000,000

## 11 CASH AND CASH EQUIVALENTS

	As at	As at 31 December	
	31 March	2012	2013
	2012	2012	2013
	HK\$	HK\$	HK\$
Cash and cash equivalents	507	368,496	13,559,901
Total	507	368,496	13,559,901

The carrying amounts of cash and cash equivalents are denominated in HK dollar.

## 12 SHARE CAPITAL

	Number of ordinary shares	Share capital HK\$
Ordinary shares of HK\$100 each		
<b>Authorised:</b>		
At 1 April 2011, 31 March 2012 and 31 December 2012:	380,000	38,000,000
Increase of authorised share capital on 8 July 2013:	2,000,000	200,000,000
At 31 December 2013:	2,380,000	238,000,000
<b>Issued and fully paid:</b>		
At 1 April 2011, 31 March 2012 and 31 December 2012:	348,485	34,848,500
Allotment of shares on 30 September 2013:	658,516	65,851,600
At 31 December 2013:	1,007,001	100,700,100

On 30 September 2013, the Target issued 658,516 new shares at HK\$100 each to the shareholders of Target, Hung Fook Tong Industrial Co. Limited. These new shares rank pari passu with the existing shares in all respects.

## 13 DEFERRED INCOME TAX

As at 31 March 2012, 31 December 2012 and 31 December 2013, the Target has recognised a deferred tax asset in respect of HK\$4,412,129, HK\$4,414,605 and HK\$4,340,749, respectively, of the tax losses at the appropriate tax rate. There are taxable temporary differences in respect of deferred tax liabilities of the same amount that are expected to be included in taxable income; and against which the expected reversal of deductible temporary differences and the tax losses can be utilised.

Deferred income tax assets and liabilities are offset when taxes relate to the same taxation authority and where offsetting is legally enforceable.

The gross movement in deferred income tax assets and liabilities during the years, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

**Deferred income tax assets**

	<b>Tax losses</b>
	<i>HK\$</i>
<b>At 1 April 2011</b>	4,554,386
Charged to statements of comprehensive income	<u>(142,257)</u>
<b>At 31 March 2012</b>	4,412,129
Credited to statements of comprehensive income	<u>2,476</u>
<b>At 31 December 2012</b>	4,414,605
Charged to statements of comprehensive income	<u>(73,856)</u>
<b>At 31 December 2013</b>	<u><u>4,340,749</u></u>

**Deferred income tax liabilities**

	<b>Accelerated tax Depreciation</b>
	<i>HK\$</i>
<b>At 1 April 2011</b>	(4,554,386)
Credited to statements of comprehensive income	<u>142,257</u>
<b>At 31 March 2012</b>	(4,412,129)
Charged to statements of comprehensive income	<u>(2,476)</u>
<b>At 31 December 2012</b>	(4,414,605)
Credited to statements of comprehensive income	<u>73,856</u>
<b>At 31 December 2013</b>	<u><u>(4,340,749)</u></u>

Deferred income tax assets are recognised for tax losses carry forward purposes only to the extent that realisation of the related tax benefits through future taxable profit is probable. The Target has unrecognised tax losses of approximately HK\$126,512,000, HK\$129,653,000 and HK\$132,214,000 as at 31 March 2012, 31 December 2012 and 31 December 2013, respectively to carry forward against future taxable profit in Hong Kong. The tax losses afore-mentioned are subject to final approval by the Inland Revenue Department in Hong Kong and can be carried forward indefinitely. The potential deferred tax assets in respect of these tax losses which have not been recognised approximately amounted to HK\$20,875,000, HK\$21,393,000 and HK\$21,815,000 as at 31 March 2012, 31 December 2012 and 31 December 2013 respectively.



## 14 ACCRUALS AND OTHER PAYABLES

	<b>As at</b>	<b>As at 31 December</b>	
	<b>31 March</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Accruals for employee benefit expenses	946,450	393,820	—
Accruals for rates and government rent	657,536	—	—
Accruals for repair and maintenance expenses	258,911	48,900	40,200
Accruals for utilities expenses	666,445	113,273	77,910
Accruals for legal and professional fees (including auditor's remuneration)	246,170	148,350	—
Accruals for construction costs	—	—	463,292
Interest payable ( <i>note</i> )	34,437,278	—	—
Payable to Hung Fook Tong Holdings Limited	446,612	—	—
Provision for employee claims ( <i>note 20(b)</i> )	1,000,000	1,000,000	1,000,000
Other accruals and other payables	259,533	96,713	1,138
	<u>38,918,935</u>	<u>1,801,056</u>	<u>1,582,540</u>

*Note:* As at 31 March 2012, balance represented interest on long outstanding bank-borrowings which had been settled in April 2012.

The carrying amounts of the accruals and other payables are denominated in HK dollar.

As at 31 March 2012 and 31 December 2012 and 31 December 2013, the carrying amounts of accruals and other payables approximate their fair values.

## 15 BANK BORROWINGS

	<b>As at</b>	<b>As at 31 December</b>	
	<b>31 March</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Bank overdrafts	127,170	—	—
Bank loans:			
Portion due for repayment within 1 year	38,832,095	—	4,166,667
Portion due for repayment after 1 year but within 5 years	—	—	35,833,333
	<u>38,959,265</u>	<u>—</u>	<u>40,000,000</u>

Bank loans due for repayment as at 31 March 2012 and 31 December 2013 are wholly repayable within 5 years.

Bank loans due for repayment, based on the scheduled repayment dates set out in the loan agreements and effective interest rates are as follows:

	<b>As at</b>	<b>As at 31 December</b>	
	<b>31 March</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Bank loans:			
Within 1 year	38,959,265	—	4,166,667
Between 1 and 2 years	—	—	10,000,000
Between 2 and 5 years	—	—	25,833,333
	<u>38,959,265</u>	<u>—</u>	<u>40,000,000</u>
Effective interest rate:	<u>11.41%</u>	<u>N/A</u>	<u>4.88%</u>

The bank borrowings facilities granted to the Target as at 31 March 2012 were secured by the following:

- (a) a legal charge on the leasehold land and building with net carrying amount of HK\$8,128,353 and HK\$27,630,363, respectively, as at 31 March 2012 of the Target;
- (b) joint and several personal guarantees executed by the ex-directors; and
- (c) corporate guarantees given by certain related companies of the ex-directors.

The bank borrowings facilities granted to the Target as at 31 December 2013 were secured by the following:

- (a) a legal charge on the leasehold land and building with net carrying amount of HK\$15,361,997 and HK\$26,335,449, respectively, as at 31 December 2013 of the Target;
- (b) joint and several personal guarantees and indemnity for an unlimited amount duly executed by the directors of the Target; and
- (c) corporate guarantees given by certain related companies.

The bank loans are denominated in Hong Kong dollar and the carrying amounts of bank borrowings approximate their fair values.

## 16 RELATED PARTY BALANCES AND TRANSACTIONS

For the purposes of this financial information, parties are considered to be related to the Target if the party has the ability, directly or indirectly, to exercise significant influence over the Target in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Target where those parties are individuals. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere, the directors are of the view that the following companies were related parties that had transactions or balances with the Target during the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013:

### As at 31 March 2012

Name of the related party	Relationship with the Target
Aqua Pure Distilled Water Company Limited	Controlled by common shareholders of the Target
A.P. Logistics Co., Limited	Controlled by common shareholders of the Target
Tees Beverage (H.K.) Limited	Controlled by common shareholders of the Target
Imperial Food Products Limited	Controlled by common shareholders of the Target
Smooth Richtop Limited	Controlled by common shareholders of the Target

### As at 31 December 2012 and 31 December 2013

Name of the related party	Relationship with the Target
Hung Fook Tong Industrial Co. Limited	Immediate holding company of the Target prior to the acquisition took place on 26 March 2014 ( <i>note 21</i> ).
Hung Fook Tong Holdings Limited	Controlled by certain shareholders of Hung Fook Tong Industrial Co. Limited
Aqua Pure Distilled Water Company Limited	Controlled by certain shareholders of Hung Fook Tong Industrial Co. Limited
A.P. Logistics Co., Limited	Controlled by certain shareholders of Hung Fook Tong Industrial Co. Limited
Tees Beverage (H.K.) Limited	Controlled by certain shareholders of Hung Fook Tong Industrial Co. Limited
Imperial Food Products Limited	Controlled by certain shareholders of Hung Fook Tong Industrial Co. Limited
Smooth Richtop Limited	Controlled by certain shareholders of Hung Fook Tong Industrial Co. Limited

**Amounts due from/(to) related companies**

Current portion of amounts due from/(to) the related companies are unsecured, interest-free and repayable on demand, except loan advance from the immediate holding company (Note 16(a), (b)), which is unsecured and bears interest of 5% and repayable by instalments for a term of 10 years.

The Target had the following material trade and non-trade balances due from/(to) related parties:

	<b>As at</b>	<b>As at 31 December</b>	
	<b>31 March</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
(a) Balances due from companies controlled by common shareholders included in current portion — Non trade			
— Aqua Pure Distilled Water Company Limited	4,401,192	6,867,692	10,939,122
— Imperial Food Products Limited	984,934	326,216	367,476
— A.P. Logistics Co., Ltd	<u>6,524,960</u>	<u>7,858,822</u>	<u>10,423,576</u>
	<u>11,911,086</u>	<u>15,052,730</u>	<u>21,730,174</u>
Balance due to companies controlled by common shareholders included in current portion — Non trade			
— Tees Beverage (H.K.) Ltd	<u>(1,444,722)</u>	<u>(1,449,272)</u>	<u>(1,436,673)</u>
(b) Balance due to immediate holding company included in current portion — Non trade			
— Hung Fook Tong Industrial Co. Limited	<u>—</u>	<u>(38,430,868)</u>	<u>(41,772,980)</u>
	<u>—</u>	<u>(38,430,868)</u>	<u>(41,772,980)</u>
— Loan advance and interest payable			
— Hung Fook Tong Industrial Co. Limited	<u>—</u>	<u>(6,941,545)</u>	<u>(6,435,789)</u>
	<u>—</u>	<u>(45,372,413)</u>	<u>(48,208,769)</u>
Balance due to immediate holding company included in non-current portion — Loan advance			
— Hung Fook Tong Industrial Co. Limited	<u>—</u>	<u>(69,500,822)</u>	<u>(7,157,494)</u>

The carrying amounts with related parties are denominated in HK dollar.

Pursuant to the agreement entered by the Company with Hung Fook Tong Industrial Co. Limited, the above balances are fully settled on 26 March 2014.

**Related parties transactions***(a) Transactions with related parties*

The following transactions were undertaken by the Target with related parties during the Relevant Periods:

	<b>Year ended March</b>	<b>Nine months ended December</b>	<b>Year ended December</b>
	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Discontinuing transactions:</b>			
Management fee income from			
— Imperial Food Products Limited	1,000,000	347,928	—
— A.P. Logistics Co., Ltd	—	214,074	—
— Aqua Pure Distilled Water Company Limited	—	1,120,479	2,176,862
	<u>1,000,000</u>	<u>1,682,481</u>	<u>2,176,862</u>
Recharge of expenses to			
— Imperial Food Products Limited	4,256,055	—	—
— A.P. Logistics Co., Ltd	198,479	—	—
— Aqua Pure Distilled Water Company Limited	1,650,855	—	—
	<u>6,105,389</u>	<u>—</u>	<u>—</u>
Recharge of expense (as an agent) to			
— Aqua Pure Distilled Water Company Limited	<u>6,357,898</u>	<u>—</u>	<u>—</u>
Interest expense to			
— Hung Fook Tong Industrial Co. Limited	<u>—</u>	<u>2,653,371</u>	<u>3,002,516</u>

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

*(b) Key management compensation*

Key management includes the directors of the Target. During the Relevant Periods, there was no compensation paid to the key management.

*(c) Guarantee by directors*

As at 31 March 2012, the bank borrowings were secured by the personal guarantees duly executed by the ex-directors.

As at 31 December 2012, there were no personal guarantees executed by the directors of the Target.

As at 31 December 2013, the bank borrowings were secured by the personal guarantees and indemnity for an unlimited amount duly executed by the directors of the Target.

*(d) Guarantee by related companies*

As at 31 March 2012, the bank borrowings were secured by the corporate guarantees given by certain related companies of the ex-directors.

As at 31 December 2012, there were no corporate guarantees executed by the related companies.

As at 31 December 2013, the bank borrowings were secured by the corporate guarantees jointly executed by Hung Fook Tong Industrial Co. Limited and Aqua Pure Distilled Water Company Limited.

## 17 AMOUNTS DUE TO EX-DIRECTORS AND THEIR RELATED PARTIES

The directors are of the view that the following ex-directors and their related parties that had transactions or balances with the Target during the year ended 31 March 2012 were related parties of the Target before Hung Fook Tong Industrial Co. Limited acquired the shares from ex-directors on 27 April 2012.

<u>Name of the related party</u>	<u>Relationship with the Target</u>	<u>As at 31 March 2012</u> <i>HK\$</i>
Tack Cheong Mercantile (Hong Kong) Limited Mr. Chang Sau Man, Stephen Ms. Chen Pei Lin Mr. Yann Chen	A company in which Mr. Chang Sau Man, Stephen holds directorship Ex-director Ex-director Brother-in-law of Mr. Chang Sau Man, Stephen	
		653,093
		2,523,423
		9,983,836
		<u>18,920,593</u>
		<u>32,080,945</u>

The Target had balances due to its ex-directors and their related parties as at 31 March 2012. On 27 April 2012, these balances has been transferred to Hung Fook Tong Industrial Co. Limited which became the Target's immediate holding company following its acquisition of the Target on the same day. Hung Fook Tong Industrial Co. Limited had confirmed, covenant and undertaken to indemnify and keep indemnified fully the Target in respect of and to the extent of the above balances and any liability related thereto or arising therefrom, and any other claims from the ex-directors and their related parties against the Target at any time after 27 April 2012, in consideration of Hung Fook Tong Industrial Co. Limited taking the benefit of the amounts due from the Target to its ex-directors and then related parties in the amount of HK\$32,080,945.

The above ex-directors and their related parties are no longer related parties of the Target since 27 April 2012.

## 18 NOTES TO THE STATEMENT OF CASH FLOWS

## (a) Reconciliation of loss before income tax to cash generated from operations

	<u>Year ended 31 March 2012</u> <i>HK\$</i>	<u>Nine months ended 31 December 2012</u> <i>HK\$</i>	<u>Year ended 31 December 2013</u> <i>HK\$</i>
Loss before income tax expense	(922,955)	(3,322,057)	(3,081,346)
Adjustments for:			
Interest expense	4,447,311	2,826,254	3,048,431
Management fee income	5 (1,000,000)	(1,682,481)	(2,176,862)
Recharge of expenses	5 (6,105,389)	—	—
Gains on disposal of property, plant and equipment	18(b) (37,015)	(79,074)	(318,053)
Amortisation of leasehold land	9 232,239	174,179	232,237
Depreciation of property, plant and equipment	9a 990,341	749,079	1,051,192
	<u>(2,395,468)</u>	<u>(1,334,100)</u>	<u>(1,244,401)</u>
Changes in working capital:			
(Decrease)/increase in amounts due to related companies	(4,111,898)	4,550	(12,599)
Increase/(decrease) in prepayments, deposits and other receivables	90,879	(134,722)	177,692
Increase in amounts due to ex-directors and their related parties	1,197,287	—	—
Increase/(decrease) in accruals and other payables	<u>1,111,341</u>	<u>(2,680,601)</u>	<u>(681,808)</u>
<b>Cash used in operations</b>	<u>(4,107,859)</u>	<u>(4,144,873)</u>	<u>(1,761,116)</u>

## (b) Disposal of property, plant and equipment

		Year ended 31 March	Nine months ended 31 December	Year ended 31 December
		2012	2012	2013
	Note	HK\$	HK\$	HK\$
<b>Property, plant and equipment</b>				
Net book value	9a	—	—	—
Gains on disposal of property, plant and equipment	5	37,015	79,074	318,053
<b>Proceeds from disposal of property, plant and equipment</b>		<u>37,015</u>	<u>79,074</u>	<u>318,053</u>

## (c) For the purpose of the statement of cash flows, cash and cash equivalents include the following:

		As at 31 March	As at 31 December	
		2012	2012	2013
	Note	HK\$	HK\$	HK\$
Bank balances	11	507	368,496	13,559,901
Bank overdrafts	15	(127,170)	—	—
		<u>(126,663)</u>	<u>368,496</u>	<u>13,559,901</u>

## (d) As at 31 March 2012, the Target had interest payable of HK\$34,437,278 in relation to bank borrowings not repaid on schedule, such amount together with the loan principal was settled by cash during the nine months ended 31 December 2012.

## (e) Non-cash transactions

The Target entered into the following non-cash financing activities which are not reflected in the statements of cash flows:

- (i) During the year ended 31 March 2012, comprising nine months ended 31 December 2012 and year ended 31 December 2013, other income (comprising management fee income and recharge of expenses) of HK\$7,105,389, HK\$1,682,481 and HK\$2,176,862, respectively, were recognised as increase in the amount due from related companies.
- (ii) During the nine months ended 31 December 2012 and year ended 31 December 2013, interest expense to a related company of HK\$2,653,371 and HK\$3,002,516, respectively, were recognised as increase in amount due to a related company.
- (iii) During the year ended 31 December 2012, balances due to its ex-directors and their related parties of HK\$32,080,945 were transferred to amount due to a related company (Note 16).
- (iv) During the year ended 31 December 2013, balances due to Hung Fook Tong Industrial Co. Limited of HK\$65,851,600 were settled through the issuance of new shares of the same nominal amount to Hung Fook Tong Industrial Co. Limited.
- (v) During the year ended 31 December 2013, the purchase of property, plant and equipment of HK\$463,292 was recognised as an increase in accruals and other payables.

**19 COMMITMENTS****Capital commitments**

As at 31 March 2012, 31 December 2012 and 31 December 2013, the Target had the following capital expenditure contracted but not yet incurred and provided for is as follows:

	<u>As at 31 March</u>	<u>As at 31 December</u>	
	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Contracted but not provided for Property, plant and equipment	—	—	39,269,828

**20 CONTINGENT LIABILITY**

- (a) The Target is involved in a potential litigation which the claim amounted 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 belongs to the Target's ex-director. The directors are of the view that the Target did not or does not owe the claimant the Alleged Debt and will vigorously defend the Target's position in the legal proceeding.

Moreover, Hung Fook Tong Industrial Co. Limited had confirmed, covenant and undertaken to indemnify and keep indemnified fully the Target against any cost, loss or damages arising from the litigation.

- (b) The Target has several pending litigations and claims with its former employees of which provision of approximately HK\$1,000,000 has been provided as at 31 March 2012, 31 December 2012 and 31 December 2013.

**21 SUBSEQUENT EVENTS**

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 31 December 2013:

- (i) On 24 March 2014, the Target has entered into a new management agreement with a related party based on contractual terms.
- (ii) On 26 March 2014, the Company entered into an agreement with Hung Fook Tong Industrial Co. Limited and two directors of the Company to acquire the entire issued share capital of the Target at a consideration of HK\$82,568,000. The consideration will be satisfied by settlement of the balances with Hung Fook Tong Industrial Co. Limited and other related parties of the Company.

**III SUBSEQUENT FINANCIAL INFORMATION**

No audited financial statements have been prepared by the Target in respect of any period subsequent to 31 December 2013 up to the date of this report. No dividend or distribution has been declared or paid by the Target in respect of any period subsequent to 31 December 2013.

Yours faithfully,

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
 Hong Kong

The information set out in this Appendix does not form part of the accountant's report on the financial information of the Group for the three years ended 31 December 2011, 2012 and 2013 and accountant's report on the financial information of Taclon Industries Limited for the year ended 31 March 2012, 9 months ended 31 December 2012 and year ended 31 December 2013 (collectively, the "Accountant's Reports") from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix IA and Appendix IB to this prospectus, respectively, and are included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountant's reports set out in Appendix IA and Appendix IB to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of our Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of our Group attributable to owners of our Company as at 31 December 2013.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 31 December 2013 or at any future dates after the Global Offering. It is prepared based on the audited combined net tangible assets of the Group as at 31 December 2013 as set out in Appendix IA to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets do not form part of the Accountant's Reports.

	Audited combined net tangible assets attributable to equity holders of the Company as at <u>31 December 2013</u>	Estimated net proceeds from the Global <u>Offering</u>	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at <u>31 December 2013</u>	Unaudited pro forma adjusted net tangible assets per share
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$ (Note 3)
Based on the Offer Price of HK\$1.0 per share	102,297	130,582	232,879	0.37
Based on the Offer Price of HK\$1.3 per share	102,297	176,560	278,857	0.44

Notes:

- (1) The audited combined net tangible assets attributable to equity holders of the Company as at 31 December 2013 is extracted from the section headed "Appendix IA — Accountant's Report of the Group" in this prospectus, which is based on the audited combined net assets of the Group attributable to owners of the Company as at 31 December 2013 of approximately HK\$102,297,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.00 per share and HK\$1.30 per share, being low and high end of the indicative Offer Price range, after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any Shares



which may be issued upon the exercise of any options which may be granted under the Share Option Schemes, any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate and the Repurchase Mandate.

- (3) The unaudited pro forma net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis of 632,000,000 Shares are in issue assuming that the Global Offering and the Capitalisation Issue have been completed on 31 December 2013, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Schemes, any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate and Repurchase Mandate.
- (4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2013. In particular, the unaudited pro forma adjusted net tangible assets of the Group do not take into account the dividend of HK\$40 million declared by the Company on 11 June 2014, which has been paid in full in June 2014 to the shareholders. The unaudited pro forma net tangible assets per share would have been HK\$0.31 and HK\$0.38 per share based on the Offer Price of HK\$1.0 and HK\$1.3 respectively, after taking into account the declaration of such dividend.

**B. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31 DECEMBER 2013**

The following is an illustrative unaudited pro forma statement of assets and liabilities of the Group and Taclon Industries Limited ("Taclon"), (together with the Group referred to as the "Enlarged Group") on the basis of the notes set forth below for the purpose of illustrating the effect of the acquisition of Taclon pursuant to the purchase agreement date 26 March 2014 and the supplementary agreement dated 30 March 2014 (collectively, the "Purchase Agreement") (the "Acquisition"), as if the Acquisition had taken place on 31 December 2013.

The total consideration is HK\$82.6 million, based on the purchase price and agreed deducting items pursuant to the Purchase Agreement. The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial positions of the Enlarged Group had the Acquisition been completed as at 31 December 2013 or any future dates.

ASSETS	The Group	Pro forma adjustments		The Enlarged Group	
		Taclon	Other pro forma adjustments		
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3a)	HK\$'000 (Note 3b)	HK\$'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Leasehold land and land use right	—	15,362	18,338	—	33,700
Property, plant and equipment	44,505	43,584	78,945	—	167,034
Investment property	858	—	—	—	858
Amounts due from related companies	61,655	—	—	(61,655)	—
Prepayments and deposits	15,812	—	—	—	15,812
Deferred income tax assets	4,692	—	—	—	4,692
	<u>127,522</u>	<u>58,946</u>			<u>222,096</u>
<b>Current assets</b>					
Inventories	29,375	—	—	—	29,375
Trade receivables	66,414	—	—	—	66,414
Prepayments, deposits and other receivables	31,026	103	—	—	31,129
Amounts due from related companies	42,212	21,730	—	(63,942)	—
Amounts due from directors	43,338	—	—	(34,226)	9,112
Tax recoverable	480	—	—	—	480
Restricted cash	31,073	—	—	—	31,073
Cash and cash equivalents	64,738	13,560	—	—	78,298
	<u>308,656</u>	<u>35,393</u>			<u>245,881</u>
<b>Total assets</b>	<u>436,178</u>	<u>94,339</u>			<u>467,977</u>

ASSETS	The Group	Pro forma adjustments		The Enlarged Group	
		Taclon	Other pro forma adjustments		
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000 (Note 3a)	HK\$'000 (Note 3b)	HK\$'000
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Provision for reinstatement costs	1,540	—	—	—	1,540
Deferred income tax liabilities	286	—	—	—	286
Amount due to a related company	—	7,157	—	(7,157)	—
Bank borrowings	23,029	35,833	—	—	58,862
Obligation under finance leases	2,495	—	—	—	2,495
	<u>27,350</u>	<u>42,990</u>			<u>63,183</u>
<b>Current liabilities</b>					
Trade and bill payables	34,863	—	—	—	34,863
Accruals and other payables	47,386	1,583	—	—	48,969
Provision for reinstatement costs	3,730	—	—	—	3,730
Receipts in advance	105,521	—	—	—	105,521
Amounts due to related companies	19,082	49,645	—	(49,645)	19,082
Amount due to directors	9,784	—	—	(9,784)	—
Bank borrowings	77,127	4,167	—	—	81,294
Obligation under finance leases	893	—	—	—	893
Taxation payable	5,441	—	—	—	5,441
	<u>303,827</u>	<u>55,395</u>			<u>299,793</u>
<b>Total liabilities</b>	<u>331,177</u>	<u>98,385</u>			<u>362,976</u>
<b>Net assets/(liabilities)</b>	<u>105,001</u>	<u>(4,046)</u>			<u>105,001</u>

*Notes:*

- The balances represent the statement of assets and liabilities of the Group as at 31 December 2013 as extracted from the Accountant's Report of the Group as set out in Appendix IA to this prospectus.
- The balances represent the statement of assets and liabilities of Taclon as at 31 December 2013 as extracted from Accountant's Report of Taclon as set out in Appendix IB to this prospectus.
- Other pro forma adjustments represent:
  - The principal activity of Taclon is the holding of a factory premise and leasehold land in Tai Po. As Taclon has no business, the directors of the Company considered the substance of the Acquisition is the purchase of an asset. As a result, the difference between the consideration and the existing carrying amount of net assets acquired was recognised as a fair value adjustment to the carrying amount of the land use right and buildings. The directors have made reference to the valuation report from Jones Lang LaSalle Corporate Appraisal and Advisory Limited for the fair value of the factory premise and leasehold land. The fair value of other assets and liabilities of Taclon approximated their carrying amounts.

Since the fair value of the leasehold land and land use right and property, plant and equipment at the completion date may be substantially different from their fair values used in the unaudited pro forma statement of assets and liabilities of Enlarged Group, the respective values of the acquired leasehold land and land use right and property, plant and equipment to be recorded in the financial statement of the Group at the completion date may be different from the amounts shown in this appendix.

- (b) In accordance with the Purchase Agreement, the consideration for the Acquisition will be satisfied by a combination of:
  - (i) full settlement of the balances with Hung Fook Tong Industrial Co. Limited by the Group as at the completion date;
  - (ii) full settlement of the Group balances with directors or companies in which the directors of the Company have shareholdings as at the completion date;
  - (iii) settlement of the balancing figure arising from the difference between the consideration and the net settlement of (i) to (ii) mentioned above through current account with directors.
- 4. Other than those pro forma adjustments mentioned above, no other adjustment has been made to reflect any trading results or other transactions of the Group and Taclon entered into subsequent to 31 December 2013.

**C. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from our Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS****TO THE DIRECTORS OF HUNG FOOK TONG GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hung Fook Tong Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2013, the unaudited pro forma statement of assets and liabilities of the enlarged group comprising the Group and Taclon Industries Limited ("Taclon") as at 31 December 2013, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-5 of the Company's prospectus dated 23 June 2014, in connection with the proposed initial public offering of the shares of the Company and the acquisition of Taclon respectively. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in pages II-1 to II-5.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of (a) the proposed initial public offering on the Group's financial position as at 31 December 2013, as if the proposed initial public offering had taken place at 31 December 2013; and (b) the proposed acquisition of Taclon on the Group's financial position as at 31 December 2013, as if the acquisition of Taclon had taken place at 31 December 2013 in two separate sets of pro forma financial information. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information as at 31 December 2013, on which an accountant's report has been published.

**DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**REPORTING ACCOUNTANT'S RESPONSIBILITIES**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering or the acquisition of Taclon at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**OPINION**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, 23 June 2014

*The following is the text of a letter and a valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 March 2014 of the property interests of the Group.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
6/F Three Pacific Place 1 Queen's Road East Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No.: C-030171

23 June 2014

The Board of Directors  
**Hung Fook Tong Group Holdings Limited**  
12/F, ADP Pentagon Center,  
98 Texaco Road,  
New Territories,  
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property held by Hung Fook Tong Group Holdings Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interest as at 31 March 2014 (the "**valuation date**").

The capital value of the property is below 15% of the total assets of the Group but is a production facility held under a long-term lease and comprises a substantial portion of the value of the total owned properties. Therefore, the Company considered that the valuation of the property is also regarded as important information to be disclosed.

Our valuation is carried out on a market value basis. Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the property interest by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. Appropriate adjustments and analysis are considered to the differences in location and other characters between the comparable properties and the subject property.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.



In valuing the property interest of the Group in Hong Kong held under the Government Lease expiring before 30 June 1997, we have taken into account the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30 June 2047 and that a rent of three per cent of the then ratable value is charged per annum from the date of extension.

We have been provided with copies of tenancy agreements relating to the property interests and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The site inspection was carried out on 28 March 2014 by Mathew Ma who is a Chartered Surveyor and a member of the RICS.

Our valuation certificate is attached.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**  
**Eddie T. W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Director*

*Note:* Eddie T.W. Yiu is a Chartered Surveyor who has 20 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

## Property Interest held by the Group in Hong Kong

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2014 HK\$
An industrial building located at Sub-section 2 of Section J of Tai Po Town Lot No. 13 and Extension thereto Nos. 11-13 Dai King Street Tai Po Industrial Estate Tai Po New Territories Hong Kong	<p>The property comprises a 2-storey industrial building completed in 1990.</p> <p>The registered site area of the property is approximately 97,870.16 sq.ft.</p> <p>The industrial building has a gross floor area of approximately 98,416 sq.ft. plus roof and upper roof area of approximately 20,921.71 sq.ft.</p> <p>The property is held under New Grant No. 11981 for a term of 99 years commencing from 1 July 1898 and has been statutorily extended to 30 June 2047. The annual Government rent payable for the property is 3% of the rateable value for the time being of the lot.</p>	The property is currently partly occupied by the Group for industrial, storage and ancillary office purposes and partly under renovation.	<p>154,200,000</p> <p>100% interest attributable to the Group: HK\$154,200,000</p>

## Notes:

1. The registered owner of the property is "Hong Kong Science and Technology Parks Corporation" vide Memorial No. TP663440 dated 4 December 2003. The property was leased from Hong Kong Science and Technology Parks Corporation to Talcon Industries Limited, a wholly-owned subsidiary of the Company for a term expiring on 27 June 2047.
2. According to the draft Tai Po Outline Zoning Plan No. S/TP/25 issued on 11 April 2014, the Property was zoned under "Other Specified Uses-Industrial Estate". Under the zone, various uses including "Industrial Use", "Broadcasting, Television and/or Film Studio", "Cargo Handling and Forwarding Facility", "Dangerous Goods Godown", "Information Technology and Telecommunications Industries", "office", "Research, Design and Development Centre" and "Warehouse (excluding Dangerous Goods Godown)" are always permitted.

The Explanatory Notes attached to the said Outline Zoning Plan ("OZP") indicates that this zone is intended to provide/reserve land for the development of an industrial estate for industries to be admitted by the Hong Kong Science and Technology Parks Corporation according to the criteria set by the Corporation. Industries to be included would normally not be accommodated in conventional industrial buildings because of their specific requirements.

3. Pursuant to our land search records, the property is subject to, inter alia, the following encumbrances:
  - a. Agreement for lease in favour of Taclon Industries Limited vide Memorial No. TP275167 dated 26 September 1987 (Re: TPTL 13 S.J ss.2);
  - b. Deed of Variation of Agreement for Lease in favour of Taclon Industries Limited vide Memorial No. TP317833 dated 17 January 1990 (Re: TPTL 13 S.J ss.2 supplemental to Agreement for Lease M/N 317833, the refund of premium is \$19,954);
  - c. Deed of Variation of Agreement for Lease in favour of Taclon Industries Limited vide Memorial No. TP405687 dated 2 October 1992 (Re: TPTL 13 S.J ss.2 & Ext. the additional premium is \$100,000);

- d. Lease in favour of Taclon Industries Limited vide Memorial No. TP406603 dated 19 October 1992 with a term commencing from 12 October 1987 and expiring on 24 June 1997, the premium is \$10,001,596 & the annual rental is \$46 (Re: TPTL 13 S.J ss.2 \$ Ext);
  - e. Deed of Extension of Lease Term and Modifications in favour of Taclon Industries Limited "The Lessee" vide Memorial No. TP406726 dated 19 October 1992;
  - f. Deed of Variation of Lease in favour of the Yien Yieh Commercial Bank Limited vide Memorial No. TP659756 dated 15 February 2001;
  - g. Second Deed of Variation of Lease in favour of the Taclon Industries Limited vide Memorial No. 13041902790145 dated 16 April 2013 (Re: SS.2 of S.J); and
  - h. Mortgage to secure all moneys in respect of general banking facilities in favour of DBS Bank (Hong Kong) Limited vide Memorial No. 13071601560018 dated 8 July 2013 (Re: TPTL 13 S.J ss.2 & Ext. by Taclon Industries Limited).
4. As at the valuation date, the property was a production facility held under a long-term lease which comprised a substantial portion of the value of the total owned properties and was the material property held by the Group:

**Details of the material property**

- (a) General description of location of the property : The property is located at the western side of the Dai King Street in Tai Po Industrial Estate. The locality is an industrial estate which is characterised by low to medium-rise industrial buildings. The factory complexes of Beijing Tong Ren Tong and Phoenix Television Corporation are located nearby within Tai Po Industrial Estate.  
  
It is served by various types of public transport facilities such as buses and minibuses to the locality of property. The MTR Tai Po station is situated within 15 minutes' driving distance from the property.
  - (b) Details of encumbrances, liens, pledges, mortgages against the property : Please refer to note 3 above
  - (c) Environmental Issue : No environmental impact study has been carried out.
  - (d) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil
  - (e) Future plans for construction, renovation, improvement or development of the property : As at the valuation date, a portion of the property was under renovation which would be finished in 2014.
5. Our Valuation has been made on the following basis and analysis:
- a. We have identified and analysed various relevant sales evidence in the locality which have similar characteristic as the subject property. The unit price of these comparables range from HK\$1,120/sq.ft. to HK\$1,620/sq.ft. on gross floor area. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property to arrive at an assumed unit rate of HK\$1,567/sq.ft. for the subject property;
  - b. The unit rate of the property is in line with the unit rate of these comparables within a reasonable range; and
  - c. Our valuation is carried out on 'as is' existing use basis and on the basis that the property can be freely transferred in the market to other third parties with the consent of Hong Kong Science and Technology Parks Corporation.

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 January 2014 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Memorandum of Association (the “**Memorandum**”) and the Articles of Association (the “**Articles**”) comprise its constitution.

### 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 11 June 2014 and will take effect from the Listing Date. The following is a summary of certain provisions of the Articles:

#### (a) Directors

##### (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members

<b>APPENDIX IV      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he

held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at

such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.



<b>APPENDIX IV      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

*(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

*(x) Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution — majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

<b>APPENDIX IV</b>	<b>SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
--------------------	--

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

<b>APPENDIX IV</b>	<b>SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
--------------------	--

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and

vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.



**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the

Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for

<b>APPENDIX IV</b>	<b>SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
--------------------	--

the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

<b>APPENDIX IV      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 4 February 2014.

<b>APPENDIX IV      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

#### **(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, has sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated as an exempted company in the Cayman Islands under the Cayman Islands Company Law with limited liability on 10 January 2014. Our principal place of business is 12/F., ADP Pentagon Centre, 98 Texaco Road, Tsuen Wan, New Territories, Hong Kong and we were registered as an overseas company in Hong Kong under Part 16 of the Companies Ordinance on 10 April 2014. Mr. Kwan and Dr. Szeto have been appointed as our authorised representatives in Hong Kong.

As we were incorporated in the Cayman Islands, we operate subject to Cayman Islands law and our constitution comprising the Memorandum and Articles of Association. A summary of various provisions of our constitution and relevant aspects of the Cayman Islands Company Law is set out in Appendix IV to this prospectus.

**2. Changes in share capital of our Company**

Our Company was incorporated on 10 January 2014. As at the date of incorporation, our Company had an authorised share capital of HK\$10,000, divided into 10,000 Shares of HK\$1.00 each. On the same date, one Share was issued for cash at par to the initial subscriber, who subsequently transferred the said Share to Ms. Wong.

On 28 February 2014, Mr. Wong and our Company entered into the Share Swap Agreement A to implement part of our Reorganisation, pursuant to which our Company issued 351 Shares to Mr. Wong, in consideration of which Mr. Wong transferred his interest in HFT Holdings to HFT BVI. The Shares were issued for cash at par and credited as fully paid. Payment of such consideration will offset the amount payable by HFT BVI (being a wholly-owned subsidiary of our Company), in its acquisition of such 5% issued share capital in HFT Holdings.

On 14 March 2014, each of Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse, Dr. Szeto and our Company entered into the Share Swap Agreement B to implement part of our Reorganisation, pursuant to which our Company issued 4,042, 2,376, 1,890, 861 and 479 Shares to Think Expert, YITAO, Prestigious Time, Mr. PS Tse and Aolong, respectively, in consideration of which Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse and Dr. Szeto transferred their respective interests in HFT Holdings, HFT Services, HFT International and Gold Work (as applicable), to HFT BVI. The Shares were issued for cash at par and credited as fully paid. Payment of such consideration will offset the amount payable by HFT BVI (being a wholly-owned subsidiary of our Company), in its acquisition of the shares in HFT Holdings, HFT Services, HFT International and Gold Work (as applicable).

On 11 June 2014, our Shareholders resolved that (i) each Share of HK\$1.00 was subdivided into 100 Shares of HK\$0.01 each; and (ii) the authorised share capital of our Company was increased to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each, with immediate effect.

On 11 June 2014, our Shareholders resolved that conditional upon the share premium account of our Company being credited as a result of the allotment and issue of the Offer Shares pursuant to the Global Offering, our Directors were authorised to capitalise an amount of HK\$4,730,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 473,000,000 Shares for allotment and issue to our Shareholders whose names appeared in the register of members of our Company at close of business on 11 June 2014.

Assuming that the Global Offering and the Capitalisation Issue become unconditional and the issue of Shares is made pursuant thereto, the issued share capital of our Company immediately following the completion of the Global Offering and Capitalisation Issue will be HK\$6,320,000 divided into 632,000,000 Shares, fully paid or credited as fully paid.

Save as aforesaid and as mentioned in “4. Extraordinary general meeting of our Company dated 11 June 2014” below, there has been no alteration in the share capital of our Company since the date of its incorporation.

### 3. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the section “History and Development — Our Group Companies” in this prospectus. The following alterations in the share capital or the registered capital of the subsidiaries of our Company have taken place within the two years preceding the date of this prospectus:

(a) *HFT BVI*

- (i) As of the date of its incorporation on 17 January 2014, HFT BVI is authorised to issue up to 50,000 ordinary shares of a single class without par value.

(b) *Taclon*

- (i) On 8 July 2013, the authorised share capital of Taclon increased from HK\$38,000,000 divided into 380,000 shares of HK\$100 each, to HK\$238,000,000 divided into 2,380,000 shares of HK\$100 each.
- (ii) On 30 September 2013, the issued share capital of Taclon increased from HK\$34,848,500 divided into 348,485 shares of HK\$100 each, to HK\$100,700,100 divided into 1,007,001 shares of HK\$100 each.

(c) *Gaoda (Dongguan)*

- (i) As of the date of its incorporation on 3 May 2012, the registered capital of Gaoda (Dongguan) was HK\$8,000,000.
- (ii) On 26 July 2012, the registered capital of Gaoda (Dongguan) in the amount of HK\$1,995,104.04 was fully paid.

(d) *HFT (Guangzhou) Trading*

- (i) On 7 January 2013, the registered capital of HFT (Guangzhou) Trading in the amount of RMB 1,000,000 was fully paid.
- (ii) On 15 August 2013, the registered capital of HFT (Guangzhou) Trading increased from RMB1,000,000 to RMB2,000,000.
- (iii) On 18 October 2013, the registered capital of HFT (Guangzhou) Trading in the amount of RMB2,000,000 was fully paid.

(e) *Ming Tong (Shanghai)*

- (i) As of the date of its incorporation on 12 September 2013, the registered capital of Ming Tong (Shanghai) was RMB 1,000,000.

- (ii) On 4 December 2013, the registered capital of Ming Tong (Shanghai) in the amount of RMB1,000,000 was fully paid.
- (f) *Luck Access*
  - (i) As of the date of its incorporation on 3 December 2013, the authorised share capital of Luck Access was HK\$10,000 divided into 10,000 shares of HK\$1 each.
  - (ii) As of the date of its incorporation on 3 December 2013, the issued share capital of Luck Access was HK\$1 divided into 1 share of HK\$1 each.
- (g) *Gold Medal*
  - (i) As of the date of its incorporation on 20 December 2013, the authorised share capital of Gold Medal was HK\$10,000 divided into 10,000 shares of HK\$1 each.
  - (ii) As of the date of its incorporation on 20 December 2013, the issued share capital of Gold Medal was HK\$1 divided into 1 share of HK\$1 each.
  - (iii) On 25 March 2014, the number of issued shares in Gold Medal increased from 1 to 6,500,000.

#### **4. Extraordinary general meeting of our Company dated 11 June 2014**

At the extraordinary general meeting of our Company held on 11 June 2014, our Shareholders resolved that, among other things:

- (a) the Articles were adopted in substitution for and to the exclusion of the then existing articles of association of our Company with effect from the Listing Date;
- (b) each issued and unissued Share of HK\$1.00 in the share capital of our Company was sub-divided into 100 Shares of HK\$0.01 each;
- (c) the authorised share capital of our Company was increased to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each;
- (d) the Memorandum was adopted in substitution for and to the exclusion of the then memorandum of association of our Company with immediate effect;
- (e) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise the sum of HK\$4,730,000 (or any such amount any one Director may determine) and apply the same in paying up in full at par 473,000,000 Shares (or any such number of Shares any one Director may determine) for allotment and issue to the Shareholders whose names appeared on the register of members of our Company at the close of business on 11 June 2014 in proportion to their then existing shareholding in our Company and such Shares to be allotted and issued shall rank *pari passu* in all respects with existing issued shares;

- (f) conditional upon:
- (i) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering, the Capitalisation Issue and upon exercise of the Over-allotment Option, Pre-IPO Share Options and Share Options;
  - (ii) the final Hong Kong dollar Offer Price having been fixed on the Price Determination Date; and
  - (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (acting for itself and on behalf of the Underwriters)) and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
    - (A) the Global Offering and the Over-allotment Option were approved;
    - (B) the Listing was approved; and
    - (C) the Share Option Schemes, the principal terms of which are set out in “E. Share Option Schemes” in this Appendix, were approved and adopted and our Directors or any committee established by our Board were authorised, at their sole discretion, to (aa) administer the Share Option Schemes; (bb) modify/amend the Share Option Schemes from time to time as required by the Stock Exchange; (cc) grant options to subscribe for Shares under the Share Option Schemes before up to the limits referred to in the Share Option Scheme; (dd) allot, issue and deal with the Shares pursuant to the exercise of any option which may be granted under the Share Option Schemes; (ee) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the Share Options granted under the Share Option Scheme; and (ff) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Schemes.
- (g) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of a dividend on Shares in accordance with the Articles, or pursuant to the exercise of any options which have been granted under the Share Option Scheme or other arrangements regulated by Chapter 17 of the Listing Rules or any specific authority granted by the Shareholders in general meetings, Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal value of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue, such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held, or the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate, whichever is the earliest;

- (h) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following completion of the Capitalisation Issue and the Global Offering until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law of the Cayman Islands to be held, or the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate whichever is the earliest; and
- (i) the extension of the general mandate to allot, issue and deal with the Shares as mentioned in sub-paragraph (e) by the addition to the aggregate nominal value of the number of Shares of our Company which may be allotted and issued or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the number of Shares of our Company repurchased by our Company pursuant to subparagraph (f) above.

Immediately following the Global Offering becoming unconditional and the issue of Shares as mentioned herein being made, the authorised share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares and the issued share capital will be HK\$6,320,000 divided into 632,000,000 Shares, all fully paid or credited as fully paid and 368,000,000 Shares will remain unissued. Please see the section "Share Capital" in this prospectus for details.

## 5. Reorganisation

In preparation for the Listing of the Shares on the Stock Exchange, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. Our Reorganisation involved the following major steps:

- (1) ***Incorporation of our Company:*** On 10 January 2014, our Company was incorporated with limited liability in the Cayman Islands with an authorised share capital of HK\$10,000 divided into 10,000 Shares of HK\$1.0 each. On the same day, one Share was issued and credited as fully paid to our Company's initial subscriber, and was subsequently transferred to Ms. Wong.
- (2) ***Incorporation of HFT BVI:*** On 17 January 2014, HFT BVI incorporated with limited liability in the BVI, which is authorised to issue up to a maximum of 50,000 shares with no par value. On the same day, one share was issued and credited as fully paid to our Company.
- (3) ***Share Swap of our Group companies:***
  - On 28 February 2014, Mr. Wong and our Company entered into the Share Swap Agreement A to implement part of our Reorganisation, pursuant to which our Company issued 351 Shares to Mr. Wong, in consideration for which Mr. Wong transferred his interest in HFT Holdings to HFT BVI. The Shares in our Company were issued for cash at par and credited as fully paid. Payment of

such consideration offset the amount payable by HFT BVI (being a wholly-owned subsidiary of our Company), in its acquisition of the 5% issued share capital in HFT Holdings.

- On 14 March 2014, Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse, Dr. Szeto and our Company entered into the Share Swap Agreement B to implement part of our Reorganisation, pursuant to which our Company issued 4,042 Shares, 2,376 Shares, 1,890 Shares, 861 Shares and 479 Shares to Think Expert, YITAO, Prestigious Time, Mr. PS Tse and Aolong, respectively, in consideration for which Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse and Dr. Szeto transferred their respective interests in HFT Holdings, HFT Services, HFT International and Gold Work (as applicable), to HFT BVI. The Shares were issued for cash at par and credited as fully paid. Payment of such consideration will offset the amount payable by HFT BVI (being a wholly-owned subsidiary of our Company) for its acquisition of the above shares in HFT Holdings, HFT Services, HFT International and Gold Work.
- (4) **Share sub-division and increase of authorised share capital:** In contemplation of the Global Offering, each Share of HK\$1.00 was subdivided into 100 Shares of HK\$0.01 each, and the authorised share capital of our Company increased from HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each, pursuant to the resolutions of our Shareholders passed on 11 June 2014.

Following the completion of the above steps, our Company was held as to approximately 40.4%, 23.8%, 18.9%, 8.6%, 4.8% and 3.5%, respectively, by Think Expert, YITAO, Prestigious Time, Mr. PS Tse, Aolong and Mr. Wong, and our Company became the holding company of our Group companies.

## 6. Repurchase by our Company of its own securities

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

### (a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction. Our Company's sole listing will be on the Stock Exchange.

*Note:* Pursuant to a resolution passed by the Shareholders of our Company on 11 June 2014 a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange, or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of our entire issued share capital immediately following the completion of the Global Offering and the Capitalisation Issue, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or applicable laws of the Cayman Islands to be held, or when revoked or varied by ordinary resolution of the shareholders of our Company, whichever shall first occur.

Under the Listing Rules and the Companies Ordinance, the shares which are proposed to be purchased by a company must be fully paid up.

**(b) Reasons for repurchases**

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole to have general authority from the Shareholders of our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value and the assets of our Company and/or the earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders of our Company as a whole.

**(c) Funding of repurchases**

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with our Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our Group's current financial position as disclosed in this prospectus and taking into account our Group's current working capital position, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on our Group's working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on our Group's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate to our Group.

**(d) General**

None of our Directors or, any of their associates currently intends to sell Shares to our Company or the subsidiaries of our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No connected person has notified us that he has a present intention to sell Shares to our Company, or has undertaken to do so.

No purchase of Shares has been made by our Company since the date of our incorporation.

If as a result of a securities repurchase a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, the Shareholder or a group of the Shareholders of our Company acting in concert could obtain or consolidate our Company's control and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. Our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

**(e) Share capital**

Exercise in full of the Repurchase Mandate, on the basis of 632,000,000 Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue could accordingly result in up to 63,200,000 Shares being repurchased by our Company during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in “A. Further information about our Company — 4. Extraordinary general meeting of our Company dated 11 June 2014” in this Appendix above.

**B. FURTHER INFORMATION ABOUT THE BUSINESS**

**1. Summary of material contracts**

The following contracts (not being contracts entered into the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are, or may be, material:

- (a) the agreement for the sale and purchase of 5% of the issued share capital of HFT Holdings entered into between our Company and Mr. Wong dated 28 February 2014, details of which are set out in the section “History and Development — Our Reorganisation — paragraph (3)(A)” in this prospectus;
- (b) the agreement for the sale and purchase of 95% of the issued share capital of HFT Holdings and the entire issued share capital of HFT Services, Gold Work and HFT International entered into between our Company (as purchaser) and Ms. Wong, Mr. PT Tse, Mr. PS Tse, Mr. Kwan and Dr. Szeto (together as the vendors) dated 14 March 2014, details of which are set out in the section “History and Development — Our Reorganisation — paragraph (3)(B)” in this prospectus;
- (c) the deed of non-competition dated 13 June 2014 executed by our Controlling Shareholders (as covenantors) and our Company, particulars of which are set out in the section “Relationship with Controlling Shareholders — Deed of Non-Competition” in this prospectus;
- (d) the deed of indemnity dated 13 June 2014 executed by our Controlling Shareholders (as indemnifiers) in favour of our Company, particulars of which are set out in “Appendix V — Statutory and General Information — G. Other Information — 2. Indemnities given by the Controlling Shareholders” in this prospectus;
- (e) the agreement for the sale and purchase of the entire issued share capital of Taclon dated 26 March 2014, entered into between HFT BVI (as purchaser) and HFT Industrial, Ms. Wong and Mr. PT Tse (together as the vendors) for a consideration of HK\$82,568,490.00; and
- (f) the underwriting agreement relating to the Hong Kong Public Offering entered into amongst our Company, the Sole Global Coordinator, the Hong Kong Underwriters, Ms. Wong, Mr. PT Tse, Mr. Kwan, Think Expert, YITAO, Prestigious Time, Dr. Szeto, Mr. PS Tse and Aolong on 20 June 2014, particulars of which are set forth in the section “Underwriting” in this prospectus.



## 2. Our material intellectual property rights

As at the Latest Practicable Date, our Group had 143 registered trademarks in Hong Kong, PRC, Macau, Taiwan, Malaysia, Singapore, Japan, Australia, Canada and USA. Our registered trademarks all relate to our retail shops operations and Long Shelf-life Drinks distribution. Set out below is a summary of our material intellectual property rights, which were determined by our Directors on the basis of their materiality to our business operation, financial position and prospects:

### (a) Trademark



As at the Latest Practicable Date, we were the registered owner of the following trademarks which we believe are material to our business:

Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
	Hong Kong	5	19913866AA	16 May 1990	16 May 2021
	Hong Kong	29	199400616	27 June 1992	27 June 2023
	Hong Kong	30	199400617	27 June 1992	27 June 2023
	Hong Kong	42	199406868	27 June 1992	27 June 2023
	PRC	43	11020020	7 April 2014	6 April 2024
	PRC	5	848159	21 June 1996	20 June 2016
	PRC	32	816751	21 February 1996	20 February 2016
	Hong Kong	29, 30 and 43	300159327	16 February 2004	15 February 2024
	Hong Kong	32	300143964	16 January 2004	15 January 2024
<b>HUNG FOOK TONG</b>	Hong Kong	5, 16	301607931	7 May 2010	6 May 2020
	Hong Kong	29, 30 and 43	300143955	16 January 2004	15 January 2024
	PRC	43	6078240	28 March 2010	27 March 2020
	PRC	32	9501188	14 June 2012	13 June 2022
	PRC	43	6621703	28 April 2010	27 April 2020
自家系列	Hong Kong	16, 29, 30 and 43	300884043	4 June 2007	3 June 2017
自家湯涼茶坊	Hong Kong	16, 29, 30 and 43	300884034	4 June 2007	3 June 2017
鴻福堂自家湯涼茶坊 HERBAL TEA & SOUP SQUARE	PRC	43	9912530	14 March 2014	13 March 2024

Our PRC Legal Advisers have advised that registered trademarks in China are classified as goods marks and services marks by its different functions. Goods marks are mainly used to distinguish the types of goods, and services marks are mainly used to distinguish the types of services. According to the eighth edition of “International Classification of Goods and Services for the Purpose of the Registration of Marks”, classes 35 to 45 are classified as services marks.

At present, we have registered a number of our trademarks in class 43 as service marks in China, these include **HUNG FOOK TONG**, ,  and . These marks which can be used exclusively by our Group in the operation of providing food and beverage service, buffets and fast food restaurants. Our PRC Legal Advisers have confirmed that our Group has complete ownership of these registered trademarks during their respective validity periods. Without the permission of our Group, no third party is allowed to use any mark that is the same as or similar to these registered trademarks for identical or similar services or carry out other activities which constitute an infringement of our exclusive right to use the registered trademarks as the registered owner.

As at the Latest Practicable Date, we have applied for the registration for the following trademarks which we believe are material to our business:

Trademark	Place of Registration	Class	Application Number	Application Date	
	Hong Kong	5, 9, 16, 21, 29, 30, 32, 35, 36 and 43	302653335	27 June 2013	
	PRC	43	12923453	16 July 2013	
	PRC	5	12923460	16 July 2013	
	PRC	16	12923459	16 July 2013	
	PRC	21	12923458	16 July 2013	
	PRC	29	12923457	16 July 2013	
	PRC	30	12923456	16 July 2013	
	PRC	32	12923455	16 July 2013	
	PRC	35	12923454	16 July 2013	
		PRC	5	12923444	16 July 2013
		PRC	16	12923443	16 July 2013
		PRC	21	12923442	16 July 2013
		PRC	29	12923441	16 July 2013
PRC		30	12923440	16 July 2013	
PRC		32	12923439	16 July 2013	
PRC		35	12923438	16 July 2013	
PRC	43	12923437	16 July 2013		

Trademark	Place of Registration	Class	Application Number	Application Date
<b>HUNG FOOK TONG</b>	Hong Kong	5, 9, 16, 21, 29, 30, 32, 35, 36 and 43	302653353	27 June 2013
	PRC	5	12923452	16 July 2013
	PRC	16	12923451	16 July 2013
	PRC	21	12923450	16 July 2013
	PRC	29	12923449	16 July 2013
	PRC	30	12923448	16 July 2013
	PRC	32	12923447	16 July 2013
	PRC	35	12923446	16 July 2013
	PRC	43	12923445	16 July 2013
<b>HFT-M<sup>2</sup></b>	Hong Kong	16, 29, 30, 35 and 43	302654947	28 June 2013
	PRC	35	12907742	12 July 2013
	PRC	43	12907741	12 July 2013
自家湯涼茶坊 HERBAL TEA & SOUP SQUARE	Hong Kong	35	302653380	27 June 2013
	自家湯涼茶坊	Hong Kong	35	302653362
	Hong Kong	5, 16, 21 and 29	302653326	27 June 2013
	Hong Kong	9, 16, 21, 35 and 36	302653317	27 June 2013
<sup>(4)</sup> 自家CLUB				
<sup>(5)</sup> 自家CLUB				
<sup>(4)</sup> 	Hong Kong	9, 16, 35 and 36	302653399	27 June 2013
	<sup>(5)</sup> 			

Trademark	Place of Registration	Class	Application Number	Application Date
鴻糖	PRC	5	13305961	29 September 2013
	PRC	16	13305960	29 September 2013
	PRC	21	13305959	29 September 2013
	PRC	29	13305958	29 September 2013
	PRC	30	13305957	29 September 2013
	PRC	32	13308646	29 September 2013
	PRC	35	13305956	29 September 2013
	PRC	43	13305955	29 September 2013

As at the Latest Practicable Date, all relevant marks with respect to our business operations in Hong Kong, Macau and China had been duly registered or applied for registration.

*(b) Domain names*

As at the Latest Practicable Date, we were the registered owner of the following domain names which we believe are material to our business:

Domain name	Expiry date
hungfooktong.com	31 January 2021
hungfooktong.com.hk	9 February 2016
hungfooktongherbs.com.hk	29 June 2017
hungfooktongholdings.com.hk	27 June 2017
health-express.com.hk	17 June 2017
hungfooktong.com.cn	12 May 2016
hungfooktongholdings.com	26 May 2015

The contents of these websites, registered or licenced, do not form part of this prospectus.

**C. FURTHER INFORMATION ABOUT OUR SUBSIDIARIES IN CHINA**

Our Company has the following subsidiaries in China, the basic information of which as at the Latest Practicable Date is set out below:

**1. Gaoda (Dongguan)**

Nature:	Wholly foreign-owned company
Date of Incorporation:	3 May 2012
Term of Operation:	3 May 2012 to 3 May 2027
Total investment amount:	HK\$8,000,000
Registered capital:	HK\$8,000,000 (HK\$1,995,104.04 fully paid)
Attributable interest of our Group:	100%
Principal scope of business:	Manufacturing of plastic bottles
Executive director:	Chan Yu Kai
Legal representative:	Chan Yu Kai

**2. HFH**

Nature:	Wholly foreign-owned company
Date of Incorporation:	3 November 1998
Term of Operation:	3 November 1998 to 3 November 2018
Total investment amount:	HK\$20,100,000
Registered capital:	HK\$20,100,000 (fully paid)
Attributable interest of our Group:	100%
Principal scope of business:	Manufacturing of bottles drinks
Chairman of the board:	Mr. Kwan
Legal representative:	Mr. Kwan

**3. HFT (Guangdong)**

Nature:	Wholly foreign-owned company
Date of Incorporation:	13 March 2008
Term of Operation:	13 March 2008 to 13 March 2028
Total investment amount:	HK\$13,000,000
Registered capital:	HK\$13,000,000 (fully paid)
Attributable interest of our Group:	100%
Principal scope of business:	Shop operations management, wholesale and retail of herbal tea and other related products
Chairman of the board:	Mr. Kwan
Legal representative:	Mr. Kwan

**4. HFT (Guangzhou) Trading**

Nature:	Wholly foreign-owned company
Date of Incorporation:	9 December 2011
Term of Operation:	9 December 2011 to 7 December 2041
Total investment amount:	RMB2,000,000
Registered capital:	RMB2,000,000 (fully paid)
Attributable interest of our Group:	100%
Principal scope of business:	Trading of bottled drinks in PRC
Chairman of the board:	Mr. PT Tse
Legal representative:	Mr. PT Tse

**5. HFT (Shanghai)**

Nature:	Wholly foreign-owned company
Date of Incorporation:	8 September 2011
Term of Operation:	8 September 2011 to 7 September 2031
Total investment amount:	RMB1,000,000
Registered capital:	RMB1,000,000 (fully paid)
Attributable interest of our Group:	100%
Principal scope of business:	Shop operations management, wholesale and retail of herbal tea and other related products
Chairman of the board:	Mr. Kwan
Legal representative:	Mr. Kwan

**6. Ming Tong (Shanghai)**

Nature:	Wholly foreign-owned company
Date of Incorporation:	12 September 2013
Term of Operation:	12 September 2013 to 11 September 2043
Total investment amount:	RMB1,000,000
Registered capital:	RMB1,000,000 (fully paid)
Attributable interest of our Group:	100%
Principal scope of business:	Food and beverage management, wholesale of general merchandise, commission agency, import and export, and related activities
Chairman of the board:	Mr. Kwan
Legal representative:	Mr. Kwan

**D. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF****1. Particulars of Directors' service agreements**

Each of our executive Directors has entered into a service agreement with our Company commencing from 11 June 2014 for a term of three years.

Each of our executive Directors and non-executive Director is entitled to a director's fee and a basic salary. The basic annual remunerations according to their respective service agreements (excluding any discretionary bonus which may be paid) payable by our Group to the

executive Directors and non-executive Director are set out below. Our executive Directors and non-executive Director are entitled to participate in our Group's social insurance and accident insurance.

<b>Executive Director</b>	<i>HK\$</i>
Mr. PT Tse	1,200,000
Ms. Wong	1,000,000
Mr. Kwan	1,680,000
Dr. Szeto	1,600,000
<b>Non-executive Director</b>	
Mr. PS Tse	820,000

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from 11 June 2014. The basic annual remuneration payable by our Group to the independent non-executive Directors according to their respective letter of appointment are as follows:

<b>Independent Non-executive Directors</b>	<i>HK\$</i>
Mr. Kiu Wai Ming	240,000
Professor Sin Yat Ming	240,000
Mr. Andrew Look	240,000

All of our Directors are covered by the directors' and officers' liability insurance purchased by our Company.

## **2. Directors' remuneration**

The aggregate remunerations paid and benefits in kind granted to our Directors in respect of the financial year ended 31 December 2013 was HK\$5.26 million. The aggregate remunerations and benefits in kind which our Directors are entitled to receive for the financial year ending 31 December 2014 is estimated to be approximately HK\$7.1 million, excluding any discretionary bonuses which may be paid to our Directors.

## **3. Interests of Directors and chief executive in our share capital**

Immediately following completion of the Global Offering and the Capitalisation Issue, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or



will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, will be as follows:

(i) *Shares*

<b>Name of Director</b>	<b>Capacity/Nature of interest</b>	<b>Number of Shares held</b>	<b>Percentage of shareholding in our Company</b>
Ms. Wong ( <i>Note 1 &amp; Note 4</i> )	Interests held jointly with another person; interest in a controlled corporation	393,846,600 (L)	62.3%
Mr. PT Tse ( <i>Note 2 &amp; Note 4</i> )	Interests held jointly with another person; interest in a controlled corporation	393,846,600 (L)	62.3%
Mr. Kwan ( <i>Note 3 &amp; Note 4</i> )	Interests held jointly with another person; interest in a controlled corporation	393,846,600 (L)	62.3%
Dr. Szeto ( <i>Note 5</i> )	Interest in a controlled corporation	22,704,600 (L)	3.6%
Mr. PS Tse	Beneficial interest	40,811,400 (L)	6.5%

*Notes:*

The letter "L" denotes long position (as defined under Part XV of the SFO) in the Shares.

- (1) Our Company will be directly owned as to 30.3% by Think Expert immediately upon the completion of the Global Offering and the Capitalisation Issue. By virtue of her 100% shareholding in Think Expert, Ms. Wong is deemed to be interested in the same number of Shares held by Think Expert.
- (2) Our Company will be directly owned as to 17.8% by YITAO immediately upon the completion of the Global Offering and the Capitalisation Issue. By virtue of his 100% shareholding in YITAO, Mr. PT Tse is deemed to be interested in the same number of Shares held by YITAO.
- (3) Our Company will be directly owned as to 14.2% by Prestigious Time immediately upon the completion of the Global Offering and the Capitalisation Issue. By virtue of his 100% shareholding in Prestigious Time, Mr. Kwan is deemed to be interested in the same number of Shares held by Prestigious Time.
- (4) Pursuant to the Acting in Concert Confirmation, each of Ms. Wong, Mr. PT Tse and Mr. Kwan have agreed to jointly control their respective interests in our Company and decisions as to the business and operations of our Group shall be in accordance with their unanimous consent. Each of our Controlling Shareholders shall exercise their respective voting rights in our Company in the same way. Hence, each of our Controlling Shareholders is deemed to be interested in all the Shares held by our Controlling Shareholders in aggregate by virtue of the SFO.
- (5) Our Company will be directly owned as to 3.6% (being 22,704,600 Shares) by Aolong immediately upon the completion of the Global Offering and the Capitalisation Issue. By virtue of his 100% shareholding in Aolong, Dr. Szeto is deemed to be interested in the same number of Shares held by Aolong.

#### 4. Substantial Shareholders

So far as is known to our Directors or the chief executive of our Company, immediately following the completion of the Global Offering and the Capitalisation Issue, other than our Directors or chief executive of the Company (for whose shareholdings, please see the paragraph “3. Interests of Directors and chief executive in our share capital” above in this section), no other person will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

##### *Our Company*

Name of shareholder	Capacity/Nature of interest	Interests held immediately upon completion of the Global Offering and the Capitalisation Issue	
		Number	Approximate percentage
Think Expert (Note 1)	Beneficial interest; interests held jointly with another person	393,846,600	62.3%
CHAN Suk Hing Comita (Note 2)	Interests of a spouse	393,846,600	62.3%
YITAO (Note 1)	Beneficial interest; interests held jointly with another person	393,846,600	62.3%
KWAN CHAN Lai Lai (Note 3)	Interests of a spouse	393,846,600	62.3%
Prestigious Time (Note 1)	Beneficial interest; interests held jointly with another person	393,846,600	62.3%
CHIU Lai Lin (Note 4)	Interests of a spouse	40,811,400	6.5%

##### *Notes:*

The letter “L” denotes long position (as defined under Part XV of the SFO) in the Shares.

- (1) Pursuant to the Acting in Concert Confirmation, Ms. Wong, Mr. PT Tse and Mr. Kwan have agreed to jointly control their respective interests in our Company and decisions as to the business and operations of our Group shall be in accordance with their unanimous consent. Each of our Controlling Shareholders shall exercise their respective voting rights in our Company in the same way. Hence, each of our Controlling Shareholders is deemed to be interested in all the Shares held by our Controlling Shareholders in aggregate by virtue of the SFO.
- (2) CHAN Suk Hing Comita is the wife of Mr. PT Tse and is therefore deemed to be interested in the Shares that Mr. PT Tse is interested in under the SFO.
- (3) KWAN CHAN Lai Lai is the wife of Mr. Kwan and is therefore deemed to be interested in the Shares that Mr. Kwan is interested in under the SFO.
- (4) CHIU Lai Lin is the wife of Mr. PS Tse and is therefore deemed to be interested in the Shares that Mr. PS Tse is interested in under the SFO.

**Gold Medal**

Name of shareholder	Capacity/Nature of interest	Interests held immediately upon completion of the Global Offering and the Capitalisation Issue	
		Number of shares	Approximate percentage
Prime Strategy Enterprises Limited ( <i>Note 1</i> )	Beneficial interest	1,950,000	30%

*Note:*

- (1) The remaining 70% interests in Gold Medal is held by Luck Access, our subsidiary.

**Goldmark**

Name of shareholder	Capacity/Nature of interest	Interests held immediately upon completion of the Global Offering and the Capitalisation Issue	
		Number of shares	Approximate percentage
Chan Yu Kai ( <i>Note 1</i> )	Beneficial interest	49,000	49%

*Note:*

- (1) The remaining 51% interests in Goldmark is held by Gold Work, our subsidiary.

**5. Disclaimers**

Except as disclosed in this prospectus:

- (a) none of our Directors or any of the experts referred to in “G. Other information — 7. Qualifications of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be so acquired, disposed of or leased;
- (b) none of our Directors in this Appendix is materially interested in any contract or arrangement subsisting at the date to this prospectus which is significant in relation to our business;
- (c) none of the experts referred to in “G. Other information — 7. Qualifications of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group, save in connection with the Underwriting Agreements, nor is in the employment of an officer of our Company; and
- (d) none of our Directors, any of their associates (as defined in the Listing Rules) or any Shareholder of our Company (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) has any interest in any of our Group’s five largest suppliers or five largest customers.

**E. SHARE OPTION SCHEMES****Pre-IPO Share Option Scheme**

The purpose of the Pre-IPO Share Option Scheme is to motivate the grantees of the Pre-IPO Share Options (the “Grantees”) to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with the Grantees who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. The principal terms of the Pre-IPO Share Option Scheme approved and adopted by our Shareholders on 11 June 2014 are substantially the same as the terms of the Share Option Scheme (where applicable) except for the following principal terms:

- (i) the exercise price of the Pre-IPO Share Options will be HK\$1.00;
- (ii) non Pre-IPO Share Option shall be further granted after Listing Date;
- (iii) any Pre-IPO Share Options will lapse automatically if the Listing does not take place by 31 December 2014;
- (iv) the Pre-IPO Share Options shall become exercisable six months following the Listing Date;
- (v) all Pre-IPO Share Options that are not exercised by the relevant Grantee prior to the third anniversary date of the Listing Date shall lapse and be deemed as cancelled and void;
- (vi) paragraphs 2(c) and 3(c) in “Share Option Scheme” below regarding granting options to connected persons are not applicable to the Pre-IPO Share Option Scheme; and
- (vii) the Pre-IPO Share Option Scheme is conditional upon approval of the Listing being granted by the Stock Exchange in respect of the Shares to be issued upon the exercise of the Pre-IPO Share Options; and (b) the commencement of dealings in Shares on the Main Board of the Stock Exchange.

**Outstanding options**

As of 16 June 2014, options to subscribe for an aggregate of 12,636,000 Shares, representing approximately 2% of the issued share capital of our Company upon completion of the Global Offering and Capitalisation Issue (without taking into account any Shares which may be issued upon any exercise of the Over-allotment Option, the Pre-IPO Share Options or the Share Options), or approximately 1.96% of the enlarged issued share capital of our Company upon full exercise of all the outstanding Pre-IPO Share Options on completion of the Global Offering and Capitalisation Issue (without taking into account any Shares to be issued upon any exercise of the Over-allotment Option or the Share Options), at an exercise price of HK\$1.00, are conditionally granted or expected to be conditionally granted by our Company to a total of eight members of the senior management of our Group and 113 other Grantees (who were employees of our Group as at the Latest Practicable Date) under the Pre-IPO Share Option Scheme.

As such, assuming full exercise of the outstanding Pre-IPO Share Options (assuming the Over-allotment Option is not exercised) and that the Offer Price is fixed at HK\$1.15 (being the mid-point of the Offer Price range), and without taking into account the recognition of the share-

based compensation expense, the shareholding of our Shareholders immediately following the Global Offering and Capitalisation Issue will be diluted by approximately 2% and earnings per Share will be reduced by approximately 0.3% (unaudited).

Based on the valuation carried out by our valuer, the fair value of the Pre-IPO Share Options is estimated to be HK\$14.4 million, and such amount will be substantially recognised as share-based compensation expenses in 2014.

(a) *Senior management of our Group*

Our senior management have been granted Pre-IPO Share Options to subscribe for a total of 4,020,000 Shares, representing approximately 0.64% of the issued share capital of our Company upon completion of the Global Offering and Capitalisation Issue (without taking into account any Shares to be issued upon the exercise of the Over-allotment Option, the Pre-IPO Share Options and the Share Options). Save for Mr. CHAN Hiu Cheuk 陳曉卓, who has been granted Pre-IPO Share Option to subscribe for a total of 450,000 Shares, none of these Grantees will become a connected person of our Company upon the Listing.

Below is a list of senior management of our Group who are Grantees under the Pre-IPO Share Option Scheme:

Name of Grantee	Address	Consideration Paid for the Grant	Exercise Price	Number of Shares under the Options Granted	Date of Grant	Option Period	Approximate Percentage of Issued Shares Immediately after Completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
<b>Senior management</b>							
TULL Shuk Ching 杜淑貞	Flat H, 8/F, Block 3, Tierra Verde, Tsing Yi, New Territories, Hong Kong	HK\$1.00	HK\$1.00	800,000	16 June 2014	3 years	0.127
POON Chi Nga 潘智雅	Flat B, 10/F, Block 1, The Cliveden, 98 Route Twisk, Tsuen Wan, New Territories, Hong Kong	HK\$1.00	HK\$1.00	800,000	16 June 2014	3 years	0.127
CHAN Hiu Cheuk 陳曉卓 <sup>(3)</sup>	Flat B, 12/F, Tower 10, Providence Peak, 8 Fo Chun Road, Tai Po, New Territories, Hong Kong	HK\$1.00	HK\$1.00	450,000	16 June 2014	3 years	0.071
LEE Bang Lau 李奔流	Flat 3516, Chung Wah House, Tin Chung Court, Tin Sui Wai, New Territories, Hong Kong	HK\$1.00	HK\$1.00	450,000	16 June 2014	3 years	0.071

Name of Grantee	Address	Consideration Paid for the Grant	Exercise Price	Number of Shares under the Options Granted	Date of Grant	Option Period	Approximate Percentage of Issued Shares Immediately after Completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
TSANG Kai Ming 曾啟明	Flat D, 18/F, Tower 7A, The Oceanaire, 18 Po Tai Street, Ma On Shan, New Territories, Hong Kong	HK\$1.00	HK\$1.00	500,000	16 June 2014	3 years	0.079
TSANG Tsz Yee Sonia 曾子怡	Flat E, 13/F, Tower 10, 1 Fung Shue Wo Road, Greenfield Garden, Tsing Yi, New Territories, Hong Kong	HK\$1.00	HK\$1.00	340,000	16 June 2014	3 years	0.054
CHOU Siu Wai Vivian 周筱慧	Flat 1205, Chung Hou House, Lei Cheng Uk Estate, Cheung Sha Wan, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	340,000	16 June 2014	3 years	0.054
SUN Man Lung 孫文龍	Room 11, 25/F, Lung Cheung House, Lung Poon Court, Diamond Hill, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	340,000	16 June 2014	3 years	0.054

*Notes:*

- Each Grantee, upon accepting the Pre-IPO Share Options, is deemed to have undertaken to our Company that he/she will comply with all applicable laws, legislation and regulations (including all applicable exchange control, fiscal and other laws to which he/she is subject) in connection with the acceptance of the grant of his/her option, the holding and exercise of his/her option in accordance with the rules of the Pre-IPO Share Option Scheme, the allotment and issue of Share to him/her upon the exercise of his/her option and the holding of such Shares.
- These percentages are calculated on the basis of 632,000,000 Shares in issue immediately following completion of the Global Offering and Capitalisation Issue (assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of the Pre-IPO Share Options and the Share Options).
- Mr. CHAN Hiu Cheuk 陳曉卓 is the son of Ms. Wong, our Controlling Shareholder and executive Director and is therefore a connected person of our Company

*(b) Other Grantees (Employees of our Group)*

Among the Grantees, other than our senior management, 113 other Grantees (who are employees of our Group) have been granted Pre-IPO Share Options to subscribe for a total of 8,616,000 Shares, representing approximately 1.36% of the issued share capital of our Company upon completion of the Global Offering and Capitalisation Issue (without taking into account any Shares to be issued upon the exercise of the Over-allotment

Option, Pre-IPO Share Options and Share Options). Save for Mr. TSE Kei Tai 謝基泰, who has been granted Pre-IPO Share Options to subscribe for a total of 20,000 Shares, none of these Grantees will become a connected person of our Company upon the Listing.

The table below shows the details of options granted to such other Grantees (who are employees of our Group):

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
<b>Employees of our Group</b>							
CHAN Suk Yin 陳淑賢	Flat C, 9/F, Mei Foo Sun Chuen, 48 Broadway Street, Mei Foo, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	400,000	16 June 2014	3 years	0.063
LEUNG Tat Wing 梁達榮	Flat A, 17/F, Block 8, Tsuen King Garden, Tsuen Wan, New Territories, Hong Kong	HK\$1.00	HK\$1.00	500,000	16 June 2014	3 years	0.079
CHENG Wai Ming 鄭偉明	Flat 18, 18/F, Shun Sang House, Stu Hin Court, Tuen Mun, New Territories, Hong Kong	HK\$1.00	HK\$1.00	340,000	16 June 2014	3 years	0.054
MO Wing Yiu 巫泳瑤	Flat H, Block D, 24/F, Tsuen Tak Garden, Tsuen Wan, New Territories, Hong Kong	HK\$1.00	HK\$1.00	280,000	16 June 2014	3 years	0.044
HOW Tak Ming 侯德明	Room 3402, Kam Hing House, Kam Tai Court, Ma On Shan, New Territories, Hong Kong	HK\$1.00	HK\$1.00	280,000	16 June 2014	3 years	0.044
LUK Wai Leung 陸偉良	Flat C, 31/F, Shen Yang House, Tsuen Wan Centre, Tsuen Wan, New Territories, Hong Kong	HK\$1.00	HK\$1.00	240,000	16 June 2014	3 years	0.038
CHAN Chun Yu 陳震宇	Room 3104, 31/F, Ko Hang House, Ko Cheung Court, Yau Tong, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	240,000	16 June 2014	3 years	0.038
Lai Chun Hin 賴振軒	Flat E, 37/F, Grand Horizon, Tsing Yi, N.T., Hong Kong	HK\$1.00	HK\$1.00	240,000	16 June 2014	3 years	0.038
Ng Chun Fung 吳振峰	Room D, 12/F, Block 10, The Parcville, 33 Yuen Long Kau Hui Road, Yuen Long, NT, Hong Kong	HK\$1.00	HK\$1.00	120,000	16 June 2014	3 years	0.019

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Wong Chun Choi 王振財	Room 14, 21/F, Hoi Ning House, Hoi Fu Court, 2 Hoi Ting Road, Mongkok, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	100,000	16 June 2014	3 years	0.016
Lai Kin Fai 賴建輝	Flat E, 32/F, Block 14, Lockwood Villas, 1 Tin Wu Road, Kingswood Villas, Tin Shui Wai, N.T., Hong Kong	HK\$1.00	HK\$1.00	120,000	16 June 2014	3 years	0.019
Mok Wing Chi 莫穎姿	Flat B, 17/F, Block 13, City Garden, North Point, Hong Kong	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Yeung Shuk Ching 楊淑貞	Flat B, 19/F, Block 7, Central Park Tower II, 2 Tin Yan Road, Tin Shui Wai, N.T., Hong Kong	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Chow Ho Yee 周可兒	Room 3216, 32/F, Pok Tai House, Pok Hong Estate, Shatin, N.T., Hong Kong	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Chan Tak Wai 陳德偉	Flat I, 2/F, 268 Gloucester Road, Hong Kong	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Lam Man Kit 林文傑	FLT H, 32/F, Tower 3, Rambler Crest, Tsing Yi, NT, Hong Kong	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Chan Siu Fung 陳小鳳	Flat 2704, 27/F, Yu Yeung Hse, Yu Chui Court, Shatin, NT, Hong Kong	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Wong Lai Chun 黃麗珍	Flat A8, 24/F, Garden Rivera, 20 Tai Chung Kiu Rd, Shatin, NT, Hong Kong	HK\$1.00	HK\$1.00	100,000	16 June 2014	3 years	0.016
Yip Fung Chu 葉鳳珠	Room 3005, Sui Hei House, Siu Sai Wan Estate, Chai Wan, Hong Kong	HK\$1.00	HK\$1.00	100,000	16 June 2014	3 years	0.016
Lai Sin Fan 黎倩芬	Flat 21, 33/F, Yat Shing Hse, May Shing Court, Shatin, NT, Hong Kong	HK\$1.00	HK\$1.00	130,000	16 June 2014	3 years	0.021
Cheung Wai Shan 張慧珊	Flat 3203, 32/F., Blk C, Galaxia, 3 Lung Poon Street, Diamond Hill, KLN, Hong Kong	HK\$1.00	HK\$1.00	100,000	16 June 2014	3 years	0.016
Chu Kit Yu 朱潔瑜	Flat 3502, Him Yat House, Yat Tung Estate(2), Tung Chung, NT, Hong Kong	HK\$1.00	HK\$1.00	70,000	16 June 2014	3 years	0.011



Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Cheng Siu Bik 鄭少碧	Rm 808, Lung Wing House, Wong Tai Sin Estate Lower, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	70,000	16 June 2014	3 years	0.011
Lau Kin Chung 劉建忠	Room D, 6/F, Block 2, Waldorf Garden, Tuen Mun, NT, Hong Kong	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Chow Ying Ha 周影霞	Flat 2109, 21/F, Wang Sin House, Cheung Wang Estate, Tsing Yi, NT, Hong Kong	HK\$1.00	HK\$1.00	40,000	16 June 2014	3 years	0.006
Fung Woon Che 馮煥枝	Flat 1106, 11/F, Nga Lai House, Yau Lai Estate, Yau Tong, KLN, Hong Kong	HK\$1.00	HK\$1.00	90,000	16 June 2014	3 years	0.014
Chan Yin Mui 陳燕梅	Flat 3007, 30/F, Oi Yan House, Tsz Oi Court, Tsz Wan Shan, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	74,000	16 June 2014	3 years	0.012
Tang Pui Kau 鄧珮裘	Flat D, 6/F, Hoi Tsui Mansion, Riviera Garden, Tsuen Wan, N.T., Hong Kong	HK\$1.00	HK\$1.00	32,000	16 June 2014	3 years	0.005
Lee Alexandra 李炳祥	Flat 3004, 30/F, Tsui Fuk House, Tsui Wan Estate, Chai Wan, Hong Kong	HK\$1.00	HK\$1.00	32,000	16 June 2014	3 years	0.005
Wong Sau Fong 黃秀芳	Flat D, 34/F, Block 2, Verbena Heights, Tseung Kwan O, NT, Hong Kong	HK\$1.00	HK\$1.00	32,000	16 June 2014	3 years	0.005
Tse Kei Tai <sup>(3)</sup> 謝基泰	Flat A, 31/F., Block 3, The Riverpark, 8 Che Kung Miu Road, Shatin, N.T., Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Lai Hoi Sau 賴海秀	Flat H, 13/F, Block 3, Richland Gardens, Kowloon Bay, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	58,000	16 June 2014	3 years	0.009
Yau Ling Ling 邱玲玲	Flat 1812, 18/F, Hang Lai House, Cheung Hang Estate, Tsing Yi, N.T., Hong Kong	HK\$1.00	HK\$1.00	58,000	16 June 2014	3 years	0.009
Tang Chi Cheong 鄧志昌	Rm 209, 2/F, Hoi Lai Est, Hoi Nga Hse, Sham Shui Po, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	28,000	16 June 2014	3 years	0.004
Wong Ka Yan 黃家恩	Room 2717, Yee Yip House, Tsing Yi Estate, Tsing Yi, NT, Hong Kong	HK\$1.00	HK\$1.00	28,000	16 June 2014	3 years	0.004

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Yu Yee Man 余依雯	Room 521, Yat King House, Lai King Estate, Lai King, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Lau Wang Fat Miquel 劉宏發	Rm 1108, Shui Kwok House, Tin Shui Estate, Tin Shui Wai, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Choi Kam Wing 蔡錦榮	Room 3213, 32/F, Shui Moon House, Tin Shui Estate, Phase 2, Tin Shui Wai, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Wong Sau Wan 黃秀雲	Room 2912 Fu Tai House, Tai Wo Hau Estate, Tsuen Wan, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Tong Oi Tung 湯譚彤	Flat 2002, 20/F, Block E, Ka Yee House, Ka Tin Court, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Chiu Hoi Ling 趙凱寧	Flat K, 6/F., Block 4, Elegance Garden, Tai Po, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Mok Shun Ying 莫順瑛	7B, Block 6, 8 Fuk Lee Street, Tai Kok Tsui, KLN, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Lau Man Ching 劉曼清	No. 26, Section D, First Street, Fairview Park, Yuen Long, N.T., Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Chan Wai Kuen 陳惠娟	Flat 301, 3/F, Tsuen Shek House, Ping Shek Estate, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Cheung Sau Mui 張秀梅	Flat 2702, 27/F, Yee Yat House, Tsing Yi Estate, Tsing Yi, N.T., Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Chang Wai Yi 鄭惠儀	Room 1222, 12/F, Tsz Fung House, Fung Tak Estate, Diamond Hill, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Tung Wing Sze 董穎詩	Flat 2114, 21/F, Ming Yan Lau, Jat Min Estate, 17 Jat Min Chuen Street, Shatin, NT, Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Wong Kum Shing 黃金城	Flat 24, 3/F, Chung Yow Building, 75 Kok Cheung Street, Tai Kok Tsui, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
So Wing Sze 蘇泳絲	Room 2116, Fook Wo House, Tai Wo Estate, Tai Po, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Cheng Kam Lung 鄭錦龍	Flat 736, 7/F, Kwong Yan House, Kwong Fuk Estate, Tai Po, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Tang Chui Shan 鄧翠珊	No 10, Siu Hang Tsuen, Lung Yeuk Tau, Fanling, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Ngan Tan Tan 顏丹丹	Room 313, Cheuk Wah House, Hing Wah Estate, Phase I, Chai Wan, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Lam Wai Ching 林慧貞	Flat H, 18/F., Block 1, 8 Fuk Lee Street, Phase 1, Metro Harbour View, Tai Kok Tsui, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Siu Sheung Hoi 蕭常開	Rm 2819, 28/F, Shek Tai House, Shek Lei Estate, Kwai Chung, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Law Chi Man 羅智文	Flat 905, 9/F, Block C, Hong Fung Hse, Cheung Hong Estate, Tsing Yi, NT, Hong Kong	HK\$1.00	HK\$1.00	28,000	16 June 2014	3 years	0.004
Kwok Sau King 郭秀琼	Flat 901, 9/F, Shing Yu House, Tin Shing Court, Tin Shui Wai, NT, Hong Kong	HK\$1.00	HK\$1.00	28,000	16 June 2014	3 years	0.004
Ho Chi Kong 何志剛	Flat 1102, 11/F, Sau Shan Hse, Cheung Shan Estate, Tsuen Wan, N.T., Hong Kong	HK\$1.00	HK\$1.00	26,000	16 June 2014	3 years	0.004
Hui Siu Yee 許少宜	Flat 662, 6/F Ming Yiu Lau, Jat Min Chuen, Shatin, Hong Kong	HK\$1.00	HK\$1.00	26,000	16 June 2014	3 years	0.004
Chiu Chui Kam 趙翠琴	Flat 714, Chung Tak House, Chung On Estate, Ma On Shan, NT, Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Yau Yeung Fa 邱陽花	Flat 1814, 18/F, Heng Fu House, Tin Heng Estate, Tin Shui Wai, NT, Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Leung Wai Man 梁惠敏	Room 319, Hop Kwai Hse, Kwai Chung Estate, Kwai Chung, NT, Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Ho Mei Kiu 何美嬌	Flat 432, 4/F, Ching Chung House, Cheung Ching Estate, Tsing Yi, N.T., Hong Kong	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Chan Yim Ha 陳麗霞	Room 401, Yi Lai House, Yau Lai Estate, Yau Tong, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	22,000	16 June 2014	3 years	0.003
Chan Lai Chun 陳麗珍	Flat 1709, 17/F, Oi Lok House, Yau Oi Estate, Yau Oi Road, Tuen Mun, N.T., Hong Kong	HK\$1.00	HK\$1.00	22,000	16 June 2014	3 years	0.003
Liu Yuet Mei 廖月媚	Room G, 13/F, Phase II, Grandway Garden, Tai Wai, Shatin, NT, Hong Kong	HK\$1.00	HK\$1.00	22,000	16 June 2014	3 years	0.003
Mak Mei Ying 麥美英	Room 3307, 33/F, Yiu Ping House, Yiu On Estate, Ma On Shan, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Lam Sau Lin 林秀蓮	Flat 1518, Block 5, Kwai Shing West Estate, Kwai Chung, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Tsui Sau Ying 徐秀英	Flat 1536, Block 8, Kwai Shing West Estate, Kwai Chung, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Cheung Yau Mui 張友妹	Flat 3005, 30/F, Wang Yung Hse, Cheung Wang Est, Tsing Yi, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Chan Hung Ting 陳虹婷	Flat 01, 1/F, Ming Chau House, Kin Ming Estate, Tseung Kwan O, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Chen Meiqing 陳梅清	Flat 3009, Cheong Sin House, Upper Wong Tai Sin Estate, Wong Tai Sin, KLN, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Li Sek Ying 李錫英	Flat 308, 3/F, Block 8, Kwan Shing West Est, Kwai Chung, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Chan Shu Wing 陳樹榮	Room 1, 2/F, Shun Ning Street, Cheung Sha Wan, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Chan Yuet Chau 陳悅秋	Room 205, Bik Lai House, Yau Lai Estate, Yau Tong, Kowloon, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Wong Siu Cheuk 黃小灼	Flat C, 6/F, Fung Cheung Building, 340 Un Chau Street, Sham Shui Po, KLN, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Tan Cailing 譚彩玲	Rm 201,1/F, Wing Lung House, Fuk Loi Estate, Tsuen Wan, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Chee Suet Lai 朱雪麗	Room 67, 11/F, Ngan Hang Lau Phase 3, Healthy Village, North Point, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Li Liming 李麗鳴	Flat 2903, Ming Wik House, Kin Ming Estate, Tseung Kwan O, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Tse Man Ho 謝文浩	RM 2, 23/F, Wing Fat Bldg. 34 Ma Miu St, Yuen Long, NT, Hong Kong	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Zhou Guichu 周貴初	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	120,000	16 June 2014	3 years	0.019
Peng Xiantang 彭仙堂	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	120,000	16 June 2014	3 years	0.019
Li Guangren 李光恩	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	26,000	16 June 2014	3 years	0.004
Sun Mingguo 孫明國	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Liang Guixiang 梁桂香	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	60,000	16 June 2014	3 years	0.009
Qiao Dongyong 喬東勇	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Tu Hongchao 涂洪超	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Chen Chunshan 陳春山	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	100,000	16 June 2014	3 years	0.016
Cheng Wenfeng 程文鋒	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	100,000	16 June 2014	3 years	0.016
Lv Changhong 呂長紅	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	24,000	16 June 2014	3 years	0.004
Guo Xiaomei 郭曉梅	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	250,000	16 June 2014	3 years	0.040
Zeng Guangken 曾廣壘	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	250,000	16 June 2014	3 years	0.040
Wu Jun 吳俊	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	50,000	16 June 2014	3 years	0.008
Yang Ming 楊明	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	50,000	16 June 2014	3 years	0.008
Hu Zhiyong 胡志勇	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Xiao Dianli 肖佃利	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Chen Weiyu 陳偉宇	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Zhou Nongqing 周濃清	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Wang Chunfeng 王春峰	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Feng Haifeng 馮海鋒	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	80,000	16 June 2014	3 years	0.013
Zhang Guocai 張國才	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Li Zexiang 李澤湘	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	80,000	16 June 2014	3 years	0.013

Name of Grantee	Address	Consideration paid for the grant	Exercise price	Number of Shares under the options granted	Date of grant	Option period	Approximate percentage of issued Shares immediately after completion of Global Offering and Capitalisation Issue <sup>(2)</sup>
Luo Shiwu 羅世武	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	20,000	16 June 2014	3 years	0.003
Xiao Xiangbiao 肖向標	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	80,000	16 June 2014	3 years	0.013
Yin Huatang 尹華堂	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	34,000	16 June 2014	3 years	0.005
Yu Zaiwu 喻再武	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	80,000	16 June 2014	3 years	0.013
Miu Xiaolong 繆小龍	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	200,000	16 June 2014	3 years	0.032
Wang Chunlan 王春蘭	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	34,000	16 June 2014	3 years	0.005
Wei Yalin 魏亞林	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	34,000	16 June 2014	3 years	0.005
Wang Kexue 王科學	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	34,000	16 June 2014	3 years	0.005
Ni Aihua 倪愛華	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	62,000	16 June 2014	3 years	0.010
Wang Cheng 王成	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	62,000	16 June 2014	3 years	0.010
Qian Xianqiu 錢先球	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	62,000	16 June 2014	3 years	0.010
Yang Juehui 楊珏暉	Jinao Science Park, Dasan Community Guanlan, Baoan District, Shenzhen City, PRC	HK\$1.00	HK\$1.00	140,000	16 June 2014	3 years	0.022
				12,636,000			2.00

**Notes:**

- Each Grantee, upon accepting the Pre-IPO Share Options, is deemed to have undertaken to our Company that he/she will comply with all applicable laws, legislation and regulations (including all applicable exchange control, fiscal and other laws to which he/she is subject) in connection with the acceptance of the grant of his/her option, the holding and exercise of his/her option in accordance with the rules of the Pre-IPO Share Option Scheme, the allotment and issue of Share to him/her upon the exercise of his/her option and the holding of such Shares.

2. These percentages are calculated on the basis of 632,000,000 Shares in issue immediately following completion of the Global Offering and Capitalisation Issue (assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of the Pre-IPO Share Options and the Share Options).
3. Mr. TSE Kei Tai 謝基泰 is the son of Mr. PT Tse, our Controlling Shareholder and executive Director and is therefore a connected person of our Company.

Assuming that the Over-allotment Option is not exercised, the shareholding in our Company held by the Grantees under the Pre-IPO Share Option Scheme after the full exercise of all the Pre-IPO Share Options (without taking into account any Shares to be issued upon the exercise of the Share Options) will be as follows:

Name of Grantee	Immediately following the completion of the Global Offering and Capitalisation Issue and the Exercise in Full of Unexercised Options Granted pursuant to our Pre-IPO Share Option Scheme	
	Number of Shares	%
<b>Senior Management</b>		
TULL Shuk Ching 杜淑貞	800,000	0.124
POON Chi Nga 潘智雅	800,000	0.124
CHAN Hiu Cheuk 陳曉卓	450,000	0.070
LEE Bang Lau 李奔流	450,000	0.070
TSANG Kai Ming 曾啟明	500,000	0.078
TSANG Tsz Yee Sonia 曾子怡	340,000	0.053
CHOU Siu Wai Vivian 周筱慧	340,000	0.053
SUN Man Lung 孫文龍	340,000	0.053
<b>Other grantees (employees of our Group)</b>		
CHAN Suk Yin 陳淑賢	400,000	0.062
LEUNG Tat Wing 梁達榮	500,000	0.078
CHENG Wai Ming 鄭偉明	340,000	0.053
MO Wing Yiu 巫泳瑤	280,000	0.043
HOW Tak Ming 侯德明	280,000	0.043
LUK Wai Leung 陸偉良	240,000	0.037
CHAN Chun Yu 陳震宇	240,000	0.037
Lai Chun Hin 賴振軒	240,000	0.037
Ng Chun Fung 吳振峰	120,000	0.019
Wong Chun Choi 王振財	100,000	0.016
Lai Kin Fai 賴建輝	120,000	0.019
Mok Wing Chi 莫穎姿	200,000	0.031
Yeung Shuk Ching 楊淑貞	200,000	0.031
Chow Ho Yee 周可兒	200,000	0.031
Chan Tak Wai 陳德偉	200,000	0.031
Lam Man Kit 林文傑	200,000	0.031
Chan Siu Fung 陳小鳳	200,000	0.031
Wong Lai Chun 黃麗珍	100,000	0.016
Yip Fung Chu 葉鳳珠	100,000	0.016
Lai Sin Fan 黎倩芬	130,000	0.020
Cheung Wai Shan 張慧珊	100,000	0.016
Chu Kit Yu 朱潔瑜	70,000	0.011
Cheng Siu Bik 鄭少碧	70,000	0.011
Lau Kin Chung 劉建忠	200,000	0.031



Name of Grantee	Immediately following the completion of the Global Offering and Capitalisation Issue and the Exercise in Full of Unexercised Options Granted pursuant to our Pre-IPO Share Option Scheme	
	Number of Shares	%
Chow Ying Ha 周影霞	40,000	0.006
Fung Woon Che 馮煥枝	90,000	0.014
Chan Yin Mui 陳燕梅	74,000	0.011
Tang Pui Kau 鄧珮裘	32,000	0.005
Lee Alexandra 李炳祥	32,000	0.005
Wong Sau Fong 黃秀芳	32,000	0.005
Tse Kei Tai 謝基泰	20,000	0.003
Lai Hoi Sau 賴海秀	58,000	0.009
Yau Ling Ling 邱玲玲	58,000	0.009
Tang Chi Cheong 鄧志昌	28,000	0.004
Wong Ka Yan 黃家恩	28,000	0.004
Yu Yee Man 余依雯	20,000	0.003
Lau Wang Fat Miquel 劉宏發	20,000	0.003
Choi Kam Wing 蔡錦榮	20,000	0.003
Wong Sau Wan 黃秀雲	20,000	0.003
Tong Oi Tung 湯藹彤	20,000	0.003
Chiu Hoi Ling 趙凱寧	20,000	0.003
Mok Shun Ying 莫順瑛	20,000	0.003
Lau Man Ching 劉曼清	20,000	0.003
Chan Wai Kuen 陳惠娟	24,000	0.004
Cheung Sau Mui 張秀梅	24,000	0.004
Chang Wai Yi 鄭惠儀	24,000	0.004
Tung Wing Sze 董穎詩	24,000	0.004
Wong Kum Shing 黃金城	24,000	0.004
So Wing Sze 蘇泳絲	20,000	0.003
Cheng Kam Lung 鄭錦龍	20,000	0.003
Tang Chui Shan 鄧翠珊	20,000	0.003
Ngan Tan Tan 顏丹丹	20,000	0.003
Lam Wai Ching 林慧貞	20,000	0.003
Siu Sheung Hoi 蕭常開	20,000	0.003
Law Chi Man 羅智文	28,000	0.004
Kwok Sau King 郭秀琼	28,000	0.004
Ho Chi Kong 何志剛	26,000	0.004
Hui Siu Yee 許少宜	26,000	0.004
Chiu Chui Kam 趙翠琴	24,000	0.004
Yau Yeung Fa 邱陽花	24,000	0.004
Leung Wai Man 梁惠敏	24,000	0.004
Ho Mei Kiu 何美嬌	24,000	0.004
Chan Yim Ha 陳艷霞	22,000	0.003
Chan Lai Chun 陳麗珍	22,000	0.003
Liu Yuet Mei 廖月媚	22,000	0.003
Mak Mei Ying 麥美英	20,000	0.003
Lam Sau Lin 林秀蓮	20,000	0.003
Tsui Sau Ying 徐秀英	20,000	0.003
Cheung Yau Mui 張友妹	20,000	0.003
Chan Hung Ting 陳虹婷	20,000	0.003

Name of Grantee	Immediately following the completion of the Global Offering and Capitalisation Issue and the Exercise in Full of Unexercised Options Granted pursuant to our Pre-IPO Share Option Scheme	
	Number of Shares	%
Chen Meiqing 陳梅清	20,000	0.003
Li Sek Ying 李錫英	20,000	0.003
Chan Shu Wing 陳樹榮	20,000	0.003
Chan Yuet Chau 陳悅秋	20,000	0.003
Wong Siu Cheuk 黃小灼	20,000	0.003
Tan Cailing 譚彩玲	20,000	0.003
Chee Suet Lai 朱雪麗	20,000	0.003
Li Liming 李麗鳴	20,000	0.003
Tse Man Ho 謝文浩	20,000	0.003
Zhou Guichu 周貴初	120,000	0.019
Peng Xiantang 彭仙堂	120,000	0.019
Li Guangen 李光恩	26,000	0.004
Sun Mingguo 孫明國	24,000	0.004
Liang Guixiang 梁桂香	60,000	0.009
Qiao Dongyong 喬東勇	24,000	0.004
Tu Hongchao 涂洪超	24,000	0.004
Chen Chunshan 陳春山	100,000	0.016
Cheng Wenfeng 程文鋒	100,000	0.016
Lv Changhong 呂長紅	24,000	0.004
Guo Xiaomei 郭曉梅	250,000	0.039
Zeng Guangken 曾廣墾	250,000	0.039
Wu Jun 吳俊	50,000	0.008
Yang Ming 楊明	50,000	0.008
Hu Zhiyong 胡志勇	20,000	0.003
Xiao Dianli 肖佃利	20,000	0.003
Chen Weiyu 陳偉宇	20,000	0.003
Zhou Nongqing 周濃清	20,000	0.003
Wang Chunfeng 王春峰	20,000	0.003
Feng Haifeng 馮海鋒	80,000	0.012
Zhang Guocai 張國才	20,000	0.003
Li Zexiang 李澤湘	80,000	0.012
Luo Shiwu 羅世武	20,000	0.003
Xiao Xiangbiao 肖向標	80,000	0.012
Yin Huatang 尹華堂	34,000	0.005
Yu Zaiwu 喻再武	80,000	0.012
Miu Xiaolong 繆小龍	200,000	0.031
Wang Chunlan 王春蘭	34,000	0.005
Wei Yalin 魏亞林	34,000	0.005
Wang Kexue 王科學	34,000	0.005
Ni Aihua 倪愛華	62,000	0.010
Wang Cheng 王成	62,000	0.010
Qian Xianqiu 錢先球	62,000	0.010
Yang Juehui 楊珏暉	140,000	0.022
	<u>12,636,000</u>	<u>1.96</u>

Save for Mr. CHAN Hiu Cheuk 陳曉卓 and Mr. TSE Kei Tai 謝基泰, who have been granted Pre-IPO Share Options to subscribe for a total of 450,000 Shares and 20,000 Shares, respectively, no Pre-IPO Shares Options was granted to any connected person of our Company. Mr. Chan has undertaken to us that he will not exercise his Pre-IPO Share Options if, as a result of such exercise, our Company would not be able to comply with the minimum public float requirements under the Listing Rules.

### Share Option Scheme

Application has been made to the Listing Committee for the listing of and permission to deal in 63,200,000 Shares, representing 10% of our Company's issued share capital as at the Listing Date, which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme. As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

The following is a summary of the principal terms of the Share Option Scheme adopted pursuant to the resolutions of our Shareholders passed on 11 June 2014 and adopted by a Board meeting on 11 June 2014. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules:

#### 1. Purpose of the Share Option Scheme

- (a) The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that Eligible Participants (as defined below) had made or may make to our Group.
- (b) The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives:
  - (i) motivate the Eligible Participants to optimise their performance and efficiency for the benefit of our Group; and
  - (ii) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to our Group.
- (c) For the purpose of the Share Option Scheme, "Eligible Participant" means any person who satisfies the eligibility criteria in paragraph 2 below.

#### 2. Who may join and basis for determining eligibility

- (a) Our Board may at its discretion grant options to: (i) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or a company in which our Group holds an interest or a subsidiary of such company ("Affiliate"); 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 adviser of or contractor to our Group or an Affiliate; or (iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to our Group or an Affiliate.

- (b) In order for a person to satisfy our Board that he/she/it is qualified to be (or, where applicable, continues to qualify to be) an Eligible Participant, such person shall provide all such information as the Board may request for the purpose of assessing his/her/its eligibility (or continuing eligibility).
- (c) Each grant of options to a connected person (as defined in the Listing Rules) of our Company, or any of his associates (as defined in the Listing Rules), must be approved in accordance with the requirements of the Listing Rules.
- (d) Should our Board resolve that a grantee fails/has failed or otherwise is/has been unable to meet the continuing eligibility criteria under the Share Option Scheme, our Company would (subject to any relevant laws and regulations) be entitled to deem any outstanding option or part thereof, granted to such grantee and to the extent not already exercised, as lapsed, subject to the requirements in paragraph 9 below.

### 3. *Grant of options*

- (a) On and subject to the terms of the Share Option Scheme, our Board shall be entitled at any time on a business day within ten years commencing on the effective date of the Share Option Scheme to offer the grant of an option to any Eligible Participant as our Board may in its absolute discretion select in accordance with the eligibility criteria set out in the Share Option Scheme. An offer shall be accepted when we receive the duly signed offer letter together with a non-refundable payment of HK\$1.00 (or such other sum in any currency as our Board may determine).
- (b) Subject to the provisions of the Share Option Scheme, the Listing Rules and any relevant laws and regulations, our Board may, on a case by case basis and at its discretion when offering the grant of an option, impose any conditions, restrictions or limitations in relation thereto additional to those expressly set forth in the Share Option Scheme as it may think fit (which shall be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing):
  - (i) the continuing eligibility of the grantee under the Share Option Scheme, and in particular, where our Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria, the option (to the extent it has not already been exercised) shall lapse, subject to the requirements in paragraph 9 below;
  - (ii) the continuing compliance of any such terms and conditions that may be attached to the grant of the option, failing which the option (to the extent that it has not already been exercised) shall lapse unless otherwise resolved to the contrary by our Board, subject to the requirements in paragraph 9 below;
  - (iii) in the event that the Eligible Participant is a corporation, that any change of the management and/or shareholding of the Eligible Participant shall constitute a failure to meet the continuing eligibility criteria under the Share Option Scheme;
  - (iv) in the event that the Eligible Participant is a trust, that any change of the beneficiary of the Eligible Participant shall constitute a failure to meet the continuing eligibility criteria under the Share Option Scheme;

- (v) in the event that the Eligible Participant is a discretionary trust, that any change of the discretionary objects of the Eligible Participant shall constitute a failure to meet the continuing eligibility criteria under the Share Option Scheme;
  - (vi) conditions, restrictions or limitations relating to the achievement of operating or financial targets; and
  - (vii) if applicable, the satisfactory performance of certain obligations by the grantee.
- (c) Our Board shall not offer the grant of an option to any Eligible Participant:
- (i) after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the relevant requirements of the Listing Rules; or
  - (ii) within the period commencing one month immediately preceding the earlier of:
    - (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
    - (2) deadline for our Company to publish an announcement of its result for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.
- (d) Any grant of options to any Director, substantial Shareholder, chief executive of our Company or their respective associates must be approved by all of our Company's independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee).

#### 4. *Exercise Price*

The exercise price for any Share under the Share Option Scheme shall be a price determined by our 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 quotations 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 paragraph 10 below.

5. *Maximum number of Shares*

- (a) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of our Company from time to time. No options may be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the said 10% limit being exceeded.
- (b) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes involving the issue or grant of options or similar rights over Shares or other securities by our Company shall not, in aggregate, exceed 10% of the issued share capital of our Company as at the Listing Date (without taking into account the Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option and the options which may be or have been granted under the Share Option Scheme) (the "Scheme Mandate Limit") unless Shareholders' approval has been obtained pursuant to sub-paragraph (d) below.
- (c) The Scheme Mandate Limit may be renewed by the Shareholders of our Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the issued share capital of our Company as at the date of the approval of such renewal by the shareholders of our Company in general meeting. Upon such renewal, all options granted under the Share Option Scheme and any other share options schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share options of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit. A circular must be sent to the Shareholders of our Company containing such relevant information from time to time as required by the Listing Rules.
- (d) Our Board may seek separate Shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to the Shareholders of our Company containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (e) No option may be granted to any Eligible Participant which, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in the twelve-month period up to and including the date of such new grant exceeding 1% in aggregate of the issued share capital of our Company as at the date of such grant. Any grant of further share options above this limit shall be subject to certain requirements provided under the Listing Rules.
- (f) The maximum number of Shares referred to in sub-paragraph (a) shall be adjusted, in such manner as our Company's auditors or our Company's independent financial adviser shall confirm in writing that the adjustments satisfy the requirements set forth in paragraph 10.

6. *Time of exercise of option*

- (a) 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.
- (b) There is no general requirement on the minimum period for which an 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, our Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations including (without limitation) those in relation to the minimum period of the options to be held and/or the performance targets to be achieved as our Board may determine in its absolute discretion.

7. *Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option.

8. *Rights on ceasing to be an Eligible Participant*

Should our Board resolve that a grantee fails/has failed or otherwise is/has been unable to meet the continuing eligibility criteria under the Share Option Scheme, our Company would (subject to any relevant laws and regulations) be entitled to deem any outstanding option or part thereof, granted to such grantee and to the extent not already exercised, as lapsed, subject to the requirements of paragraph 9 below.

9. *Rights on death/ceasing employment*

- (a) If the grantee (being an individual) dies before exercising the option in full, his or her legal personal representative(s) may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within a period of twelve months following his death or such longer period as our Board may determine.
- (b) Subject to sub-paragraphs (c) and (d), if the grantee who is an employee ceases to be an employee for any reason other than his death, disability or the termination of his employment on one or more of the following grounds that:
  - (i) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the grantee (being a corporation);
  - (ii) the grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within a meaning of section 178 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or any similar provisions under the Cayman Islands Company Law) or otherwise become insolvent;
  - (iii) there is unsatisfied judgment, order or award outstanding against the grantee or our Company has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his debts;

- (iv) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in sub-paragraph (i) above;
- (v) a bankruptcy order has been made against the grantee in any jurisdiction; or
- (vi) a petition for bankruptcy has been presented against the grantee in any jurisdiction;

the grantee may exercise the option (to the extent exercisable as at the date of the relevant event and not exercised) within 60 days following the date of such cessation.

- (c) If the grantee is an employee, director, consultant, professional, agent, partner, advisor of or contractor to our Group or its Affiliate at the time of the grant of the relevant option(s) and his employment or service to our Company is terminated on the ground of disability, the grantee may exercise the option (to the extent exercisable as at the date on which such grantee ceases to be an employee, director, consultant, professional, agent, partner, advisor of or contractor to our Group or its Affiliate and not exercised) within six months following such cessation or such longer period as our Board may determine.
- (d) If the grantee is an employee at the time of the grant of the relevant option(s), in the event that such grantee shall cease to be an employee but becomes, or continues to be, a consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate, then the option (to the extent exercisable as at the date on which such grantee ceases to be an employee and not exercised) shall be exercised within three months following the date of such cessation or such longer period as our Board may determine.
- (e) If the grantee is an employee at the time of the grant of the relevant option(s), in the event that such grantee shall cease to be an employee but becomes, or continues to be, a director of our Group or an Affiliate, then the option(s) (to the extent exercisable as at the date on which such grantee ceases to be an employee and not exercised) granted prior to the date of his becoming a director of our Group or its Affiliate shall remain exercisable until its expiry in accordance with the provisions of the Share Option Scheme and the terms and conditions upon which such option(s) is granted unless our Board shall determine to the contrary.
- (f) If the grantee, who is a director, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate but not an employee, ceasing to be a director, consultant, customer, supplier, agent, partner or adviser of or contractor to our Group or an Affiliate (as the case may be) for any reason other than his death (in the case of a grantee being an individual) or disability (in the case of a grantee being a director or consultant of our Group or its Affiliate), the option (to the extent exercisable as at the date of such cessation and not exercised) shall be exercised within 30 days following the date of such cessation or such longer period as the Board may determine.

#### 10. *Effects of alterations to capital*

In the event of any alteration in our capital structure while an option remains exercisable, and such event arises from, including a capitalisation of our Company profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of the



share capital of our Company, such corresponding alterations (if any) shall be made to the number or nominal amount of Shares subject to the options so far as unexercised; and/or the exercise price; and/or the method of exercise of the options; and/or the maximum number of Shares subject to the Share Option Schemes. Any adjustments required under this paragraph must give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled, but no such adjustments may be made to the extent that Shares would be issued at less than their nominal value or (unless with the prior approval from our shareholders in general meeting) to the extent that such adjustments are made to the advantage of the grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, independent financial adviser appointed by our Company or our Company's auditors must confirm to our Directors in writing that the adjustments satisfy the requirements set out in this paragraph.

#### *11. Rights on a Takeover*

If a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional (within the meaning of the Takeovers Code), the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within one month after the date on which the offer becomes or is declared unconditional (within the meaning of the Takeovers Code).

#### *12. Rights on a Scheme of Arrangement*

In the event of a compromise or arrangement between us and our members or creditors being proposed in connection with a scheme for reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), we shall give notice thereof to all grantees on the same date as it gives notice of the meeting to our members or creditors to consider such a scheme of arrangement, and thereupon the grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option (such notice to be received by our Company not later than two business days (excluding any period(s) of closure of our share registers) prior to the proposed meeting) exercise the option (to the extent exercisable as at the date of the notice to the grantee and not exercised) either in full or in part and we shall, as soon as possible and in any event no later than the business day (excluding any period(s) of closure of our share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and registered the grantee as holder thereof.

#### *13. Rights on a Voluntary Winding up*

In the event notice is given by us to our Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up us, we shall forthwith give notice thereof to the grantee and the grantee may, by notice in writing to our Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant option (such notice to be received by our Company not later than two business days (excluding any period(s) of closure of our share registers) prior to the proposed meeting) exercise the option (to the extent exercisable as at the date of the notice to the grantee and not exercised) either in full or in part and we shall, as soon as possible and in any event no later than the

business day (excluding any period(s) of closure of our share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

*14. Rights attaching to Shares upon exercise of an option*

Shares allotted upon the exercise of an option shall rank *pari passu* in all respects with the existing fully paid Shares in issue at the date of allotment.

*15. Lapse of options*

An option (to the extent such option has not already been exercised) shall lapse and not be exercisable on the earliest of:

- (a) the expiry of the exercise period;
- (b) the expiry of the periods referred to in paragraph 9;
- (c) the date of commencement of our Company's winding-up in respect of the situation contemplated in paragraph 13;
- (d) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph 12;
- (e) the date of which the grantee who is an employee ceases to be an employee by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty;
- (f) the happening of any of the following events, unless otherwise waived by our Board:
  - (i) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the grantee (being a corporation);
  - (ii) the grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within a meaning of section 178 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or any similar provisions under the Cayman Islands Company Law) or otherwise become insolvent;
  - (iii) there is unsatisfied judgment, order or award outstanding against the grantee or our Company has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
  - (iv) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in sub-paragraphs (i), (ii) and (iii) above;
  - (v) a bankruptcy order has been made against the grantee or any director of the grantee (being a corporation) in any jurisdiction; or

- (vi) a petition for bankruptcy has been presented against the grantee or any director of the grantee (being a corporation) in any jurisdiction;
- (g) the date on which a situation as contemplated under paragraph 7 arises;
- (h) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise resolved to the contrary by our Board; or
- (i) the date on which our Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria as may be prescribed pursuant to paragraph 8.

*16. Cancellation of options granted*

Our Board shall have the absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued Shares in the authorised share capital of our Company, and available ungranted options (excluding for this purpose all the cancelled options) within the limits referred to in paragraph 5.

*17. Period of the Share Option Scheme*

Options may be granted to Eligible Participants under the Share Option Scheme during the period of ten years commencing on the effective date of the Share Option Scheme.

*18. Alteration to Share Option Scheme and Termination*

- (a) The Share Option Scheme may be altered in any respect by resolution of our Board except those specific provisions relating to matters in Rule 17.03 of the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) be altered to the advantage of grantees or prospective grantees except with the prior approval of the Shareholders of our Company in general meeting.
- (b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders of our Company in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.
- (c) We by resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

*19. Conditions of the Share Option Scheme*

The Share Option Scheme shall take effect subject to the passing of the necessary resolution to adopt the Share Option Scheme by our Shareholders in a special general meeting of our Company and is conditional upon the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, any Shares to be issued and allotted by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme.

## 20. Administration of the Share Option Scheme

The Share Option Scheme shall be subject to the administration of our Board or any committee established by our Board from time to time, whose decision (save as otherwise provided in the Share Option Scheme) shall be final and binding on all parties.

Save as disclosed in the above paragraphs, no other options have been granted or agreed to be granted by our Company under the Share Option Schemes as at the date of this prospectus.

## G. OTHER INFORMATION

### 1. Estate duty

We have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries in China and that the Cayman Islands currently have no estate duty, inheritance tax or gift tax.

### 2. Indemnities given by the Controlling Shareholders

Under the Deed of Indemnity, our Controlling Shareholders (together the “Indemnifiers”) have jointly and severally undertaken with our Company, subject to the terms of the Deed of Indemnity, to indemnify our Company and each member of our Group (on its own behalf and as trustee for our Group) and at all times keep the same fully indemnified on demand against all taxation falling on any member of our Group resulting from, or by reference to any income, profit or gains earned, accrued or received and/or assets acquired on or before the Listing, any estate duty, and all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, penalties and fines falling on our Company or any member of our Group directly or indirectly resulting from, or relating to or in consequence of:

- (a) the Reorganisation;
- (b) the restructuring of the PRC operation of our Group set out in the sections “History and Development — History and Development — History and Restructuring of our PRC Operation” and “History and Development — Restructuring of other companies in China” in this prospectus;
- (c) the Taclon Acquisition;
- (d) any claim from the landlords of the premises which were/are leased by our Group for or arising from any breach of any relevant leases entered into by members of our Group prior to the Listing;
- (e) claims by any person alleging to be having shareholding interest in members of our Group with or without being registered as a member in the register of members in any member of our Group prior to the Listing;
- (f) any cost, loss or damages arising from the litigation set out in the section “Business — Legal Proceedings — Litigations in relation to Taclon” in this prospectus in the event that the Vendor (as defined in the said section) fails to indemnify and keep indemnified Taclon against any cost, loss or damages arising from the litigation;
- (g) building orders issued by the Building Authority and/or Buildings Department served on any member of our Group, in relation to any building structure(s) and/or equipment(s) erected by any member of our Group, prior to the Listing, on the relevant premises where any of our Group’s retail shops was/is located at;

- (h) building orders and/or notices issued by the Building Authority and/or Buildings Department to any third parties, including the relevant landlord(s) of any of the premises at which any of our Group's retail shops was/is located, to the extent that the concerned building structure(s) and/or equipment(s) was erected by any member of our Group, prior to the Listing and/or to the extent the operations of our Group or any member of our Group are affected due to such orders and/or notices;
- (i) failure of any member of our Group to make all necessary tax filings and outstanding tax liabilities of any member of our Group or the individual proprietorships previously operated by Mr. Kwan and Ms. Lam Hiu Yin respectively under the entrustment arrangements for and on behalf of our Group in China as set out in the section "History and Development — History and Restructuring of our PRC Operation" in this prospectus;
- (j) any alleged or actual violation or non-compliance by any member of our Group with any laws, regulations or administrative orders or measures in Hong Kong and China (the "Laws") prior to the Listing.

The Indemnifiers have also jointly and severally undertaken to indemnify each member of our Group and keep the same fully indemnified against any actions, claims, losses, liabilities, damages, costs, charges or expenses which may be made, suffered or incurred by any of them in respect of or arising directly or indirectly from any claim which is covered by the indemnities set out above including, but not limited to, all reasonable costs (including legal costs), charges, expenses, penalties and other liabilities which our Group may reasonably and properly incur in connection with:

- (a) the investigation, assessment or the contesting of any such claim;
- (b) the settlement of any such claim;
- (c) any legal proceedings in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given in favour of any member of our Group;
- (d) the enforcement of any such settlement or judgment in respect of any such claim.

### **3. Litigation**

Save as disclosed in the section "Business — Legal Proceedings" in this prospectus, neither our Company nor any of its subsidiaries is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known by our Directors to be pending or threatened by or against any member of our Group.

### **4. Promoters**

Our Company has no promoter as the term is defined under the Listing Rules.

### **5. Sole Sponsor and the application for listing**

The Sole Sponsor has applied to the Listing Committee of the Stock Exchange on our behalf for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Schemes. The Sole Sponsor satisfies the independence criteria applicable to sponsors under Rule 3A.07 of the Listing Rules.

## 6. Preliminary expenses and the Sole Sponsor's fees

The preliminary expenses of our Company are estimated to be approximately HK\$85,800, and have been paid by our Company.

The Sole Sponsor will be paid by our Company an aggregate fee of HK\$3.5 million to act as the sponsor to the Global Offering.

## 7. Qualifications of experts

The following are the qualifications of the experts which have given their opinions or advice which are contained, or referred to, in this prospectus:

Expert	Qualification
Crosby Securities Limited	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of regulated activities as defined under the SFO
Deacons	Qualified Hong Kong lawyers
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
PricewaterhouseCoopers	Certified Public Accountants
Jingtian & Gongcheng	Qualified PRC lawyers
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Chartered Surveyors
Ipsos Hong Kong Limited	Independent professional market research firm

## 8. Consents of experts

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this prospectus with inclusion of its report and/or letter and/or the references to its name in the form and context in which they are respectively included.

As at the Latest Practicable Date, none of the experts referred to above has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## 9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**10. Miscellaneous**

Except as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid for either cash or a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
- (d) since 31 December 2013 (being the date to which the latest audited combined financial information of our Group were made up) there has not been any material adverse effect in the financial or trading position of our Group;
- (e) our Company has no outstanding convertible debt securities;
- (f) no founder, management or deferred shares or debentures of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (g) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (h) there is no arrangement under which future dividends are waived or agreed to be waived;
- (i) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus; and
- (j) the register of members of our Company will be maintained in Hong Kong by the Hong Kong Share Registrar.

**11. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents referred to in "G. Other information — 8. Consents of experts" in Appendix V to this prospectus and copies of the material contracts referred to in "B. Further information about the business — 1. Summary of material contracts" in Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Deacons at 5th Floor, Alexandra House, 18 Chater Road, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (1) the Memorandum of Association and the Articles of Association;
- (2) the accountant's report of our Group for the years ended 31 December 2011, 2012 and 2013 from PricewaterhouseCoopers, the text of which is set out in Appendix IA to this prospectus;
- (3) the audited combined financial statements of our Group for the years ended 31 December 2011, 2012 and 2013;
- (4) the audited financial statements of Taclon for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013;
- (5) the accountant's report on Taclon for the year ended 31 March 2012, nine months ended 31 December 2012 and year ended 31 December 2013 from PricewaterhouseCoopers, the text of which is set out in Appendix IB to this prospectus;
- (6) the report from PricewaterhouseCoopers relating to our unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (7) the Ipsos Report;
- (8) a copy of the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (9) the PRC legal opinion issued by Jingtian & Gongcheng in respect of our general matters and property interests and taxation matters of our Group;
- (10) the Hong Kong Legal opinion issued by Deacons in respect of certain aspects of our operation and corporate matters in Hong Kong;
- (11) the rules of the Share Option Scheme;
- (12) the rules of the Pre-IPO Share Option Scheme;
- (13) the list of all the Grantees who have been conditionally granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing details required under the Listing Rules and the Companies (Winding up and Miscellaneous Provisions) Ordinance;



- (14) the property valuation report relating to the property leased by Taclon which is set out in Appendix III to this prospectus;
- (15) the material contracts referred to in “B. Further information about the business — 1. Summary of material contracts” in Appendix V to this prospectus;
- (16) the service agreements and the letters of appointment referred to in “D. Further information about Directors, management and staff — 1. Particulars of Directors’ service agreements” in Appendix V to this prospectus;
- (17) the written consents referred to in “G. Other information — 8. Consents of experts” in Appendix V to this prospectus; and
- (18) the Cayman Islands Company Law.



**HUNG FOOK TONG**

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

