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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1446)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

HIGHLIGHTS

- Revenue for the year ended 31 December 2014 ("2014") increased to HK$722.1 million, by 11.9% from that for the year ended 31 December 2013 ("2013").
  - — Revenue from retail business increased by 13.3%, to HK$480.9 million, continuing the shop expansion strategy, with our retail network comprising 132 retail shops as at 31 December 2014.
  - — Revenue from wholesale business increased by 9.4%, to HK$241.2 million, with our distribution network now covering 39 cities in 15 provinces, and number of distributors in Mainland China increased to 71.
- Gross profit for 2014 increased to HK$424.0 million by 9.5% from 2013, and gross profit margin for 2014 slightly decreased to 58.7%.
- Loss attributable to equity holders of the Company for 2014 was:
  - — based on reported net loss: HK$38.3 million;
  - — based on Underlying Net Loss (Note): HK$14.2 million.
- Loss per share for 2014 was:
  - — based on reported net loss: HK6.82 cents;
  - — based on Underlying Net Loss (Note): HK2.53 cents.

Note:

Underlying Net Loss represents reported net loss as set out in the Consolidated Statement of Comprehensive Income before taking into account:

(i). one-off listing-related expenses of approximately HK$18.6 million; and

(ii). share based compensation expenses relating to the pre-IPO share options of approximately HK$5.5 million

RESULTS

The board of directors (the "Board") of Hung Fook Tong Group Holdings Limited (the "Company") hereby announces the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014 together with comparative figures for the previous financial year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

		Year ended 31 December	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**722,072**	645,049
Cost of sales		**(298,092)**	(257,950)
Gross profit		**423,980**	387,099
Other income	*5*	**1,064**	1,143
Other gains/(losses), net	*5*	**869**	(64)
Selling and distribution costs	*6*	**(73,076)**	(55,249)
Administrative expenses	*6*	**(382,459)**	(282,407)
Operating (loss)/profit		**(29,622)**	50,522
Finance income	*7*	**1,032**	4,303
Finance costs	*7*	**(5,429)**	(6,304)
Finance costs, net	*7*	**(4,397)**	(2,001)
(Loss)/profit before income tax		**(34,019)**	48,521
Income tax expense	*8*	**(4,641)**	(12,548)
(Loss)/profit for the year		**(38,660)**	35,973
(Loss)/profit attributable to:			
Equity holders of the Company		**(38,345)**	34,468
Non-controlling interests		**(315)**	1,505
		(38,660)	35,973
(Loss)/earnings per share attributable to equity holders of the Company			
— Basic and diluted (HK cents per share)	*9*	**(6.82)**	7.27

	Note	Year ended 31 December 2014 HK$'000	2013 HK$'000
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
— Currency translation differences		**(1,105)**	972
— Release of exchange reserve upon disposal of a subsidiary		**(338)**	–
Other comprehensive (loss)/income, net of tax		**(1,443)**	972
Total comprehensive (loss)/income for the year		**(40,103)**	36,945
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(39,759)**	35,340
Non-controlling interests		**(344)**	1,605
		(40,103)	36,945
Dividends	*10*	**40,000**	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

		As at 31 December	
		2014	2013
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Leasehold land		**32,987**	–
Property, plant and equipment		**252,057**	44,505
Investment properties		**829**	858
Amounts due from related companies		**–**	61,655
Prepayments and deposits		**29,683**	15,812
Deferred income tax assets		**3,905**	4,692
		319,461	127,522
Current assets			
Inventories		**36,688**	29,375
Trade receivables	*11*	**55,068**	66,414
Prepayments, deposits and other receivables		**24,620**	31,026
Amounts due from related companies		**1,033**	42,212
Amounts due from directors		**–**	43,338
Tax recoverable		**6,600**	480
Pledged bank deposits		**24,326**	22,031
Bank deposits with original maturity over 3 months		**10,030**	9,042
Cash and cash equivalents		**87,685**	64,738
		246,050	308,656
Total assets		**565,511**	436,178
Equity			
Share capital	*12*	**6,557**	–
Share premium	*12*	**214,650**	–
Reserves		**28,066**	102,297
		249,273	102,297
Non-controlling interests		**4,310**	2,704
Total equity		**253,583**	105,001

	Note	As at 31 December 2014 HK$'000	2013 HK$'000
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		**4,837**	1,540
Deferred income tax liabilities		**342**	286
Bank borrowings		**13,645**	23,029
Obligation under finance leases		**1,890**	2,495
		20,714	27,350
Current liabilities			
Trade and bill payables	*13*	**28,505**	34,863
Accruals and other payables		**86,822**	47,386
Provision for reinstatement costs		**2,339**	3,730
Receipts in advance		**116,252**	105,521
Amounts due to related companies		**–**	19,082
Amounts due to directors		**–**	9,784
Bank borrowings		**51,651**	77,127
Obligation under finance leases		**1,048**	893
Taxation payable		**4,597**	5,441
		291,214	303,827
Total liabilities		**311,928**	331,177
Total equity and liabilities		**565,511**	436,178
Net current (liabilities)/assets		**(45,164)**	4,829
Total assets less current liabilities		**274,297**	132,351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION OF THE GROUP AND GROUP REORGANISATION

1.1 General information

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

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

The Company has listed its shares on the Stock Exchange of Hong Kong Limited on 4 July 2014.

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated and have been approved for issue by the Board on 26 March 2015.

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "Reorganisation") as described below, the Business was carried out by companies now comprising the Group other than Taclon Industries Limited ("Taclon") which was acquired by the Group on 26 March 2014 (collectively the "Operating Companies") and 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").

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 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.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Business is held by Operating Companies. Pursuant to the Reorganisation, the Operating Companies together with the 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 Business with no change in management of such business and the ultimate owners of the Business remain the same throughout all the years presented. Accordingly, the consolidated financial statements of the Group are presented using the carrying values of the Business under HFT (BVI) for all years presented.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been prepared under the historical cost convention.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of the financial statements 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.

As at 31 December 2014, the Group's current liabilities exceeded its current assets by HK$45,164,000. The acquisition of Taclon properties (Note 14) and the related modification work for the production facility resulted in corresponding increases in leasehold land and property and plant and equipment included in non-current assets. Included within net current liabilities was non-refundable receipts in advance from customers of HK$116,252,000 which will reduce gradually over the time of each purchase and are not expected to be settled in cash under normal business circumstances.

The future funding requirements of the Group are expected to be met through the cash flows generated from operating activities and the drawdown of the revolving and term credit facility available from various international banks. As at 31 December 2014, the committed undrawn facilities amounted to approximately HK$100 million. Based on the Group's history of its ability to obtain external financing, its operating performance and its expected future working capital requirements, management believes that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

The following standards, amendments and interpretations to existing standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment entities
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

The adoption of these new and revised standards, amendments and interpretations to existing standards does not have significant impact to the Group's results of operation and financial position.

The following are standards, amendments and interpretations to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning after 1 January 2014, but have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKAS 19 (Amendment)	Employee Benefits	1 July 2014
Annual Improvements Project 2012	Annual Improvements 2010–2012 Cycle	1 July 2014
Annual Improvements Project 2013	Annual Improvements 2011–2013 Cycle	1 July 2014
Annual Improvements Project 2014	Annual Improvements 2012–2014 Cycle	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants	1 January 2016
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018

The Group will adopt the above new standards, amendments to existing standards and interpretations as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

3 SEGMENT INFORMATION

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

Management has identified three reportable segments based on the Group's business model, namely the (i) Hong Kong Retail; (ii) PRC Retail and (iii) Wholesale.

Segment assets consist primarily of leasehold land, property, plant and equipment, investment properties, inventories, trade receivables, prepayments, deposits and other receivables, pledged bank deposits, bank deposits with original maturity over 3 months, 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 leasehold land and property, plant and equipment and additions from acquisition of Taclon properties *(Note 14)*.

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 expense are not included in segment results.

The segment information provided to the executive directors for the years ended 31 December 2014 and 2013 are as follows:

	Year ended 31 December 2014			
	Hong Kong Retail	**PRC Retail**	**Wholesale**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	**466,694**	**20,009**	**249,561**	**736,264**
Less: Inter-segment revenue	**(5,821)**	**–**	**(8,371)**	**(14,192)**
Revenue from external customers	**460,873**	**20,009**	**241,190**	**722,072**
Segment results	**43,321**	**(7,479)**	**7,952**	**43,794**
Corporate expenses				**(49,298)**
Listing-related expenses				**(18,590)**
Share based compensation expenses				**(5,528)**
Finance costs, net				**(4,397)**
Loss before income tax				**(34,019)**
Income tax expense				**(4,641)**
Loss for the year				**(38,660)**
Other segment items:				
Capital expenditure	**246,590**	**1,688**	**20,456**	**268,734**
Depreciation and amortisation	**13,099**	**2,066**	**9,697**	**24,862**
Interest income	**592**	**1**	**439**	**1,032**

	Year ended 31 December 2013			
	Hong Kong Retail	PRC Retail	Wholesale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	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
Segment results	75,237	(3,154)	21,348	93,431
Corporate expenses				(37,020)
Listing-related expenses				(5,889)
Finance costs, net				(2,001)
Profit before income tax				48,521
Income tax expense				(12,548)
Profit for the year				35,973
Other segment items:				
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 2014 and 2013 are as follows:

	Hong Kong Retail	**PRC Retail**	**Wholesale**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2014					
Segment assets	**354,335**	**21,578**	**182,243**	**(4,183)**	**553,973**
Amounts due from related companies					**1,033**
Tax recoverable					**6,600**
Deferred income tax assets					**3,905**
Total assets					**565,511**
As at 31 December 2013					
Segment assets	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 income tax assets					4,692
Total assets					436,178

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

The Company is domiciled in the Cayman Islands while the Group operates its business primarily in Hong Kong and in the PRC. For the year ended 31 December 2014, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2013: nil).

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

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**592,717**	517,303
The PRC	**111,564**	111,299
Overseas countries	**17,791**	16,447
	722,072	645,049

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2013 and 2014.

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	
	2014	2013
	HK$'000	*HK$'000*
Hong Kong	**442,824**	167,475
The PRC	**111,149**	116,326
	553,973	283,801

4 REVENUE

The Group's revenue recognised during the year is as follows:

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Sale of goods	**704,695**	634,684
Service income	**17**	59
Revenue recognised upon expiry of pre-paid coupons and cards	**17,360**	10,306
	722,072	645,049

5 OTHER INCOME AND OTHER GAINS/(LOSSES), NET

Other income

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Rental income	**264**	253
Franchise income	**85**	430
Others	**715**	460
	1,064	1,143

Other gains/(losses), net

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Exchange difference	**(43)**	–
Losses on disposal of property, plant and equipment	**(1,446)**	(64)
Release of payables for logistic services upon settlement with the counterparty	**2,053**	–
Others	**305**	–
	869	(64)

6 EXPENSES BY NATURE

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Operating lease rental in respect of retail outlets		
— Minimum rental	**86,429**	75,675
— Contingent rental	**1,140**	1,725
Operating lease rental in respect of storage spaces and office premises	**17,836**	12,265
Amortisation of leasehold land	**713**	–
Depreciation of property, plant and equipment	**24,120**	17,360
Depreciation of investment properties	**29**	29
Employee benefit expenses (including directors' emoluments and share based compensation expenses)	**214,011**	167,211
Provision for/(reversal of provision for) obsolete inventories	**386**	(167)
(Reversal of)/provision for impairment on trade receivables	**(12)**	298
Listing-related expenses	**18,590**	5,889

Employee benefit expenses (including directors' emoluments) include:

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Wages, salaries and bonuses	**186,562**	153,338
Medical and other employee benefits	**12,235**	7,389
Retirement benefit costs — defined contribution plans	**9,686**	6,484
Share based compensation expenses	**5,528**	–
	214,011	167,211

7 FINANCE COSTS, NET

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Finance income:		
— Interest income	**1,032**	4,303
Finance costs:		
— Interest expenses on borrowings		
— Repayable within 1 year *(Note)*	**(3,855)**	(3,043)
— Repayable in 2 to 5 years *(Note)*	**(1,366)**	(3,197)
— Interest expenses on finance leases	**(208)**	(64)
	(5,429)	(6,304)
Finance costs, net	**(4,397)**	(2,001)

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.

8 INCOME TAX EXPENSE

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2014 (2013: 16.5%) 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% (2013: 25%).

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Current tax:		
Hong Kong profits tax on profits for the year	**430**	7,868
PRC EIT on profits for the year	**3,378**	2,888
Over-provision in prior years	**(8)**	–
Deferred income tax	**841**	1,792
Income tax expense	**4,641**	12,548

9 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
(Loss)/profit attributable to owners of the Company	**(38,345)**	34,468
Weighted average number of ordinary shares in issue (thousands)	**562,415**	474,000
Basic (loss)/earnings per share (HK cents)	**(6.82)**	7.27

The one ordinary share issued on incorporation and the newly issued shares of 473,999,999 under the subdivision of shares and capitalisation issue pursuant to the shareholder resolutions dated 11 June 2014 are adjusted in the weighted average number of ordinary shares in issue as if the issues had occurred at 1 January 2013, the beginning of the earliest period reported.

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has share options which may result in dilutive potential ordinary shares. Its calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted (loss)/earnings per share for the years ended 31 December 2014 and 2013 equal basic (loss)/earnings per share as the exercise of the outstanding share options would be anti-dilutive.

(c) Adjusted

During the year, the Group incurred listing-related expenses and share based compensation expenses related to pre-IPO share options scheme. Management is of the opinion that these expenses are non-recurring and, in order to enable an investor to better understand the Group's results, it is meaningful to present the following reconciliation of (loss)/earnings per share based on (loss)/profit attributable to equity holders of the Company excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme.

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
(Loss)/profit attributable to equity holders of the Company	**(38,345)**	34,468
Adjustments for:		
Listing related expenses	**18,590**	5,889
Share based compensation expenses in relation to pre-IPO share options scheme	**5,528**	–
Adjusted (loss)/profit attributable to equity holders of the Company excluding listing related expenses and share based compensation expenses related to pre-IPO share options scheme	**(14,227)**	40,357
Adjusted basic (loss)/earnings per share excluding listing related expenses and share based compensation expenses related to pre-IPO share options scheme (HK cents)	**(2.53)**	8.51

Adjusted diluted (loss)/earnings per share for the years ended 31 December 2014 and 2013 equal adjusted basic (loss)/earnings per share as the exercise of the outstanding share options would be anti-dilutive.

10 DIVIDENDS

	2014	2013
	HK$'000	*HK$'000*
Dividends declared and paid	**40,000**	–

On 11 June 2014, an interim dividend of HK$40,000,000 was declared and paid by the Company to the then shareholders of the Company pursuant to the resolution of the first extraordinary general meeting for 2014.

11 TRADE RECEIVABLES

	As at 31 December	
	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**56,800**	68,158
Less: Provision for impairment of trade receivables	**(1,732)**	(1,744)
Trade receivables, net	**55,068**	66,414

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 31 December 2014 and 2013, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2014	2013
	HK$'000	*HK$'000*
Less than 30 days	**22,154**	31,585
31–90 days	**24,033**	27,042
Over 90 days	**8,881**	7,787
	55,068	66,414

12 SHARE CAPITAL AND SHARE PREMIUM

	Note	**Number of shares**	**Nominal value of ordinary shares** *HK$*
Authorised:			
At 10 January 2014 (date of incorporation)	*(a)*	10,000	10,000
Increase in authorised share capital and subdivision of shares	*(c)*	999,990,000	9,990,000
At 31 December 2014		**1,000,000,000**	**10,000,000**

	Note	**Number of shares**	**Nominal value of ordinary shares** *HK$*	**Share premium** *HK$*
Issued and fully paid:				
At 10 January 2014 (date of incorporation)		1	1	–
Shares issued pursuant to the Reorganisation	*(b)*	9,999	9,999	–
Subdivision of shares	*(c)*	990,000	–	–
Shares issued pursuant to the Capitalisation Issue	*(d)*	473,000,000	4,730,000	(4,730,000)
Shares issued pursuant to the Global Offering	*(e)*	181,700,000	1,817,000	234,393,000
Share issuance costs		–	–	(15,013,179)
At 31 December 2014		**655,700,000**	**6,557,000**	**214,649,821**

(a) The Company was incorporated on 10 January 2014. As at the date of incorporation, the 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.

(b) Shares issued pursuant to the Reorganisation:

(i) On 28 February 2014, Mr. Wong and the Company entered into a share swap agreement to implement part of the Reorganisation, pursuant to which the Company issued 351 Shares to Mr. Wong, in consideration for which Mr. Wong transferred his interest in Hung Fook Tong Holdings Limited ("HFT Holdings") to HFT (BVI). The shares in the Company were issued for cash at par and credited as fully paid. Payment of such consideration had offset the amount payable by HFT (BVI) (being a wholly owned subsidiary of the Company), in its acquisition of such 5% issued share capital in HFT Holdings.

(ii) On 14 March 2014, each of Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse, Dr. Szeto and the Company entered into a share swap agreement to implement part of the Reorganisation, pursuant to which the Company issued 4,042, 2,376, 1,890, 861 and 479 shares to each of Think Expert Investments Limited, YITAO Investments Limited, Prestigious Time Limited, Mr. PS Tse and Aolong Limited, (together, the "Shareholders"), respectively, in consideration for which each of Ms. Wong, Mr. PT Tse, Mr. Kwan, Mr. PS Tse and Dr. Szeto transferred their respective interests in HFT Holdings, Hung Fook Tong Services Limited ("HFT Services"), Hung Fook Tong International Limited ("HFT International") and Gold Work Limited ("Gold Work") (as applicable), to HFT (BVI). The shares in the Company were issued for cash at par and credited as fully paid. Payment of such consideration had offset the amount payable by HFT (BVI) (being a wholly-owned subsidiary of the Company), in its acquisition of the shares in HFT Holdings, HFT Services, HFT International and Gold Work.

(c) On 11 June 2014, the Shareholders resolved that (i) each share of HK$1.00 in the share capital of the Company was subdivided into 100 shares of HK$0.01 each; and (ii) the authorised share capital of the Company was increased to HK$10,000,000 divided into 1,000,000,000 shares of HK$0.01 each.

(d) Pursuant to the written resolution passed by the Shareholders on 11 June 2014, 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.

(e) On 4 July 2014 and 30 July 2014, the Company issued 158,000,000 new shares and 23,700,000 new shares, respectively at HK$1.3 each in relation to the Global Offering.

These new shares rank pari passu with the existing shares in all respects.

13 TRADE AND BILL PAYABLES

	As at 31 December	
	2014	2013
	HK$'000	*HK$'000*
Trade payables	**26,677**	28,456
Bill payables	**1,828**	6,407
	28,505	34,863

As at 31 December 2014, the ageing analysis of the trade and bill payables, based on invoice date, is as follows:

	As at 31 December	
	2014	2013
	HK$'000	*HK$'000*
0 to 30 days	**19,398**	33,564
31 to 60 days	**7,430**	438
61 to 90 days	**1,211**	75
Over 90 days	**466**	786
	28,505	34,863

14 ACQUISITION OF TACLON PROPERTIES

On 26 March 2014, HFT (BVI) entered into an agreement with AC Alliance Investment Limited ("AC Alliance", formerly known as Hung Fook Tong Industrial Company Limited, a related company to the Group) under which HFT (BVI) agreed to acquire 100% equity interests in Taclon ("Taclon Acquisition") for a total consideration of HK$82.6 million. The major asset of Taclon is a leasehold property in Tai Po Industrial Estate which the Group used to replace its Tsuen Wan production facility, the lease for which expired in December 2014, and to further expand the Group's production capacity. The Directors considered that the Taclon Acquisition was not an acquisition of any business but was an acquisition of long-term leasehold of the production facility premises and the equipment located thereon through the acquisition of Taclon, and has been accounted for an acquisition of assets. The Taclon Acquisition was completed on 26 March 2014. The consideration of the Taclon Acquisition was fully settled and set-off against the amounts due from AC Alliance and other related companies.

The net assets acquired by the Group in the above transaction are as follows:

	HK$'000
Leasehold land and land use right	33,700
Property, plant and equipment	131,783
Prepayments, deposits and other receivables	131
Cash and cash equivalents	(531)
Amounts due to related companies	(41,410)
Accruals and other payables	(1,105)
Bank borrowings	(40,000)
	82,568
Satisfied by:	
Amounts due from AC Alliance and other related companies	82,568

15 COMMITMENTS

(a) Operating leases commitments

As lessee

The Group had future aggregate minimum lease payments in relation to retail outlets, storage spaces and office premises under non-cancellable operating lease as follows:

	As at 31 December	
	2014	2013
	HK$'000	*HK$'000*
Not later than 1 year	**84,681**	65,661
Later than 1 year and no later than 5 years	**89,825**	61,036
	174,506	126,697

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

The Group had the following capital expenditure contracted but net yet incurred and provided for is as follows:

	As at 31 December	
	2014	2013
	HK$'000	*HK$'000*
Contracted but not provided for		
Property, plant and equipment	**1,553**	3,441

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The retail sector has continued to underperform due to unstable consumption sentiment, though the demand for healthy herbal products in Hong Kong has remained stable owing to society's increasing health consciousness. Such awareness, combined with the solid market leadership of the Company and its subsidiaries, resulted in total revenue of HK$722.1 million during the year under review, representing a year-on-year increase of 11.9%.

Such growth was mainly driven by the Group's businesses in Hong Kong. However, despite a healthy rise in both revenue and the underlying profit (i.e. net profit before listing expenses and share-based compensation expenses (collectively the "IPO Expenses")) was recorded in the first half of 2014, revenue generated during the second half year began to taper due to the impact of the food incident as set out in the Group's announcement dated 10 July 2014; lower than expected revenue generated from newly opened shops in Hong Kong, and less favourable performance of businesses in Mainland China. Due to an increase in costs, gross profit only rose by 9.5% to HK$424.0 million while gross profit margin was 58.7% (2013: 60.0%).

The management believes that the "Hung Fook Tong" brand has a huge market value in the traditional herbal tea and wellness drink market. To facilitate the Group's future growth, the Group sought to list on the Main Board of The Stock Exchange of Hong Kong Limited, consequently becoming the first local herbal tea company to be listed on the bourse in July 2014. This has resulted in one-off IPO Expenses that amounted to HK$24.1 million. Further, with the opening of production plant in Tai Po, Hong Kong and the commencement of trial production of the plant in Suzhou, Mainland China during the year, the Group has incurred additional operating expenses. Nonetheless, the plants will go towards supporting the Group's production needs well into the future. Other additional expenses incurred by the Group during the year comprising 1) retail shop expansion; 2) sales team expansion in Mainland China and 3) strengthening of internal quality control, contributed to a net loss of HK$14.2 million attributable to equity holders of the Company before the inclusion of IPO Expenses, and a net loss of HK$38.3 million following inclusion.

All of the aforementioned investments are nevertheless regarded as crucial to the Group's sustainable development in the middle to long term, while also bolstering its competitiveness and efficiency: attributes that are essential for capturing opportunities that will emerge in the future.

Business Segment Analysis

Retail

The retail segments generated total revenue of HK$480.9 million during the year, representing a year-on-year increase of approximately 13.3%, while profit for the segments declined to HK$36.2 million (2013: HK$72.1 million).

Hong Kong

In Hong Kong, revenue amounted to HK$460.9 million, up 15.4% from HK$399.4 million recorded in 2013. The Hong Kong retail business therefore remained the Group's main revenue contributor, accounting for 63.8% of total revenue.

28 new shops were opened during the year, thereby raising the total number of shops pass the milestone 100 mark — at 105 shops as of 31 December 2014 — and again placing Hung Fook Tong at the top of the industry in terms of size of retail network. The new shops not only helped sustain the Group's market leadership, but also extended its retail coverage to more strategic locations, such as the Southern District, Central and Kowloon East. Five shops were opened in Hong Kong Island, covering Aberdeen, Kennedy Town, Shau Kei Wan and Siu Sai Wan.

The food incident in July dampened consumption sentiment during the second half year, and was particularly felt by shops that were newly opened in areas where customer loyalty had yet to build, including shops where consumer behaviour is thought to be different from that of customers who frequently shop at MTR stations and shopping malls. As a result, sales generated from these new shops are lower than expected.

Despite the underperformance of the new shops, healthy same-store sales growth of 13.1% was achieved by existing locations, i.e. those in operation throughout 2013 and 2014 was sustained. Average sales per shop increased to approximately HK$4.6 million in 2014 as compared to HK$4.4 million in 2013. As most of the newly opened shops had yet to achieve breakeven point, and additional costs were incurred to strengthen management and support for the larger scale operation, profit for the segment dropped by 42.4% to HK$43.3 million.

To reach out to the public in general, the Group continued to draw customers to the JIKA CLUB, which successfully added approximately 86,000 new members, and thus, total membership in Hong Kong climbed significantly to approximately 434,700. Moreover, the Group made further headway in the corporate sales segment, securing 141 new corporate customers; comprising banks, insurance companies and professional associations.

Mainland China

In Mainland China, the retail business recorded revenue of HK$20.0 million for the reporting year, a year-on-year decline of 20.6%, and incurred a segment loss of HK$7.5 million. As at 31 December 2014, the Group operated 5 retail shops in Shanghai. However, in view of the unsatisfactory return on its investment, the Group has decided to withdraw its retail operation from the Shanghai market through the gradual closing of all under-performing retail shops in the coming years. The Group is currently negotiating with its joint venture partner on the possible termination of cooperative ties in the region.

In Guangzhou when the Group possesses better-market experience, it has opened four new shops in 2014, all of which are located in top-tier shopping centres. The total number of self-operated shops in Guangzhou and Foshan has thus reached 22 as at 31 December 2014. With respect to the Guangzhou outlets, nearly all have achieved operational breakeven point, thus supporting the management's view that local residents hold a favourable opinion of Hung Fook Tong as a leading Hong Kong brand. The Group will place greater focus on the Guangzhou market as it continues to prudently expand in the region.

Wholesale

Revenue derived from the wholesale segment grew by 9.4% year-on-year to HK$241.2 million in 2014. This was despite facing a general downturn in the beverage industry, which mirrored the economic slowdown. Segmental profit decreased to HK$8.0 million (2013: HK$21.3 million).

Mainland China

Wholesale in Mainland China rose by 6.5% year-on-year to HK$91.6 million, as compared to 67.4% for 2013. The slowdown in growth momentum was due to weaker consumer sentiment in the beverage market in Mainland China, which was particularly evident towards the second half year, and an economic slowdown in the country.

The Guangdong market remained the Group's largest Mainland China wholesale market, where sales rose by 16.5%. However, the Shanghai market experienced a decline in sales. The longer than expected transition period of a major customer previously handled by distributors to key account has adversely affected the sale to this customer.

The Group has continued to invest in the Mainland China market and has expanded its sales and marketing team's coverage to 39 cities and 15 provinces, including Jilin, Zhanjiang, Suzhou and Qingyuan. It also extended the distribution network with the addition of 23 new distributors, thus totalling 71 as of 31 December 2014 and is expected to widen still further. Although the investment affected the Group's short term profitability, the management remains confident that given the Group's brand value and the growth potential of the herbal and wellness drinks market in Mainland China, the strategy will benefit the Group development over the long run.

In view of the weaker market consumption sentiment particularly in the second half of the year, and in order to capture a greater share of the market, the Group offered more attractive promotions to third-party retailers and distributors as sales incentives. Such measures are expected to help facilitate long-term cooperation leading to enhanced brand visibility, even though affecting the profit margin in the short term. Coupled with the rise in operating costs due to additional investments to raise brand awareness and bolster the distribution network, profitability was adversely affected.

Hong Kong

In respect of Hong Kong (including Hong Kong and overseas markets), revenue from wholesale rose by 17.1% to HK$149.6 million, thus underscoring the Group's ability to lead the market. As validated by Nielsen, the Group continued to increase its market share in the Wellness Drink Category in Hong Kong, which rose to 39.5% — up by 100 basis points when compared with 2013 — and therefore maintained its No.1 position in this category for the 12th consecutive year.

Committed to offering innovative and healthy products to its consumers, new products including the Salted Lime Drink (咸青檸) have been well received by customers. The Group has also added new offerings to the fresh drinks portfolio.

Prospects

The performance of the retail segment in both Hong Kong and Mainland China is expected to remain lacklustre during 2015 as the two economics will continue to be shrouded in uncertainty. Though health consciousness of the public has risen in successive years, they will nonetheless be more cautious with their spending in light of the slow growing economy. Hence, the herbal drinks industry as well as the Group's performance in the first quarter of 2015 will invariably be affected.

Against increasingly competitive and challenging market condition, the management will strategically allocate resources in both the retail and wholesale markets in order to mitigate the impact.

The management is fully aware of the need to manage costs and will seek to control operating expenses by employing a streamlined cost structure. As production has been relocated to the Tai Po plant and the rental contract for the previous facility has been terminated at the end of December 2014, associated expenses are set to decline. In terms of lease renewals for shops in Hong Kong and Mainland China, the management has witnessed steadier rental cost trends. The Group will also seek to stabilise the food and staff costs to revenue ratio among other cost control efforts.

Retail

While the Group aims to sustain a healthy same-store sales growth, it will also focus on raising revenue contributions from most of the new outlets opened in 2014 so as to regain momentum. The management will also target to open around 10 shops in Hong Kong in 2015, and have already opened 2 shops and secured 3 premises. Though locations in Hong Kong Island and Kowloon East are the strategic targets, key sites will be those within or near MTR stations — particularly the new extension lines including Western District — and popular shopping centres near residential areas that allow the Group to reinforce its market position.

Product expansion will also be an ongoing pursuit, and will follow a two-dimensional expansion strategy — expanding product variety while striving for greater market penetration. The Group will also seek to expand into burgeoning segments, such as the wedding market, where it can provide unique alternatives to a new generation who are interested in offering gift vouchers that break from tradition. Having introduced products for new mothers, including the highly successful trotter in sweet vinegar sauce (豬腳薑) that achieved satisfactory sales growth in the past year, the management is optimistic about the Group's ability to develop these new markets.

To further raise the Group's competitiveness, it will continue to employ marketing strategies to enhance brand awareness, promote new products and bolster Hung Fook Tong's reputation. Assisted by young celebrity spokespersons, JIKA CLUB and online campaigns, the Group is already synonymous with the traditional herbal culture and modern wellness concept that it champions.

In Mainland China, the Group will take a more cautious approach in terms of expanding its presence in Guangdong and will leverage Hung Fook Tong's "Hong Kong brand" image to raise brand recognition. Having closed 2 loss making shops in Shanghai subsequent to the review year, the management will also seek to optimise its scale in the region in 2015.

Wholesale

With regards to the wholesale business, the management will leverage efforts already made to strengthen ties with third-party retailers and distributors to further bolster its network in existing geographical markets in Mainland China. At the same time, closer management of key accounts will be practiced, complemented by ongoing channel review, particularly in Shanghai. Given that the new Suzhou plant will commence operation in the first half of 2015, the facility will improve efficiency by lowering logistics related costs and shortening delivery cycles, leading to the longer sellable shelf life of products in Mainland China, especially for the eastern and northern regions.

In addition to deepening penetration in existing regions as aforementioned, the Group will look to expand its footprint in northern China, including locations as Shandong, Hebei, Liaoning and Heilongjiang. Correspondingly, an office in Beijing will be opened in April 2015.

The management will therefore continue to employ the "Taste of Hong Kong" theme in its promotions to strengthen our brand's link with the city, which is associated with high quality and peace of mind among the Chinese public. In addition, beverage market in the first quarter of 2015 was still stagnant due to weak market sentiment. The Group has already secured a high end supermarket chain as an additional key account and prepared for the peak season with associated promotional plans, new products and channels engaged with distributors and third-party retailers, with an aim to strike for keeping momentum to continue to grow in Mainland China.

In Hong Kong, the management remains confident about the Group's ability to realise business growth and maintain its No. 1 position given its expanded product offerings and new distribution channels. Nevertheless, a number of innovative marketing campaigns will be introduced to support the reintroductions of signature products that feature fresh packaging.

Production Facilities

The Group's production facilities are invaluable assets as exemplified by the Tai Po plant in Hong Kong which, once fully operational, will increase the Group's annual production capacity by over 100% when compared to the former plant in Tsuen Wan. Besides higher output, the plant will also allow the Group to benefit from greater automation, higher operational efficiency and better food quality. The expanded capacity will better support the retail business in Hong Kong as well.

In respect of the Suzhou plant in Mainland China, it is scheduled to commence production within the second quarter of 2015, as all neccessary licenses have been secured. The facility is expected to produce some 27 million bottles of drinks annually once fully operational. Its geographical location also offers the advantage of expanding into eastern and northern Mainland China, which will be spearheaded by the Group's fresh and long shelf-life drinks. As well, the facility will enable the Group to enjoy greater efficiency, lower transportation costs, achieve higher delivery cycles and longer shelf life of its products.

With the added production capacity provided by the two plants, the Group will have better means to advance the retail and distribution businesses in both Hong Kong and Mainland China in the coming years.

Conclusion

While 2014 was a year of challenges and cultivation; 2015 looks set to be yet another challenging year for the Group. Nonetheless, with greater financial flexibility afforded by the Group's listing, a proven business model, enhanced production capacity and a veteran management team at the helm, the Group will seek to sustain growth in Hong Kong while at the same time look to bolster its performance in Mainland China. While striving for progress, the Group will remain true to its "Naturally Made, Wholeheartedly Good" motto, the essence of which is to contribute to the wellbeing of the public by promulgating the traditional Chinese herbal culture and modern wellness concept.

FINANCIAL OVERVIEW

Revenue

During the year ended 31 December 2014, the Group's revenue reached to HK$722.1 million, representing an increase of 12.0% from HK$645.0 million in 2013. The increase was attributed to an increase of 15.4% in Hong Kong retail sales and 9.4% in wholesales.

Cost of Sales

During the year ended 31 December 2014, the Group's cost of sales amounted to HK$298.1 million, representing an increase of 15.6% from HK$258.0 million in 2013. This accounted for 41.3% and 40.0% respectively in percentage to revenue in 2014 and 2013. Under the continuous pressure of the increasing costs of raw materials, labour and production overheads, the Group will continue to implement and maintain effective cost control through the use of selective pricing strategy to the suppliers, greater automation and higher manufacturing efficiency in our new Tai Po plant.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2014, the Group's gross profit amounted to HK$424.0 million, representing an increase of 9.5% from HK$387.1 million in 2013. The Group's gross profit margin dropped by 1.3% to 58.7% as compared to 60.0% in 2013. The drop was mainly due to the increase in the raw materials costs

Staff Costs

For the year ended 31 December 2014, the Group's staff costs amounted to HK$214.0 million, representing an increase of 28.0% from HK$167.2 million in 2013. The increase was primarily due to the recruitment of additional staff for newly opened shops in Hong Kong and Mainland China, and also the share-based compensation expenses of approximately HK$5.5 million relating to the pre-IPO share option. The staff costs-to-revenue ratio was at 29.6%, increased from 25.9% in 2013.

Rental Expenses

For the year ended 31 December 2014, the Group's rental expenses amounted to HK$105.4 million, representing an increase of 17.5% from HK$89.7 million in 2013. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-revenue ratio raised to 14.6%, as compared to 13.9% in 2013. The increase was mainly expenses attributed to the fact that it took time for the new shops to achieve the target or potential sales level.

Advertising and Promotion Expenses

For the year ended 31 December 2014, the Group's advertising and promotion expenses amounted to HK$33.6 million, representing an increase of 32.2% from HK$25.4 million in 2013. This accounted for 4.6% and 3.9% respectively in percentage to revenue in 2014 and 2013. The increase was primarily due to the increase in marketing campaigns for the promotion of the new shops and for the recruitment of new members to the JIKA CLUB in the Hong Kong retail market, and to expand our coverage in the Mainland China wholesale market.

Depreciation and Amortisation

For the year ended 31 December 2014 and 2013, depreciation and amortisation of the Group amounted to HK$24.9 million and HK$17.4 million respectively, which amounted for approximately 3.4% and 2.7% of the Group's revenue in the respective years. This represents an increase of 43.0% which was mainly attributed to the additions in leasehold improvements and plant and machinery in the new production plant in Tai Po.

Net Loss

Net Loss attributed to the equity holders of the Company for the year ended 31 December 2014 was HK$38.3 million, as compared to the net profit of HK$34.5 million in 2013. The net loss was mainly due to (1) an increase in operating expenses for the trial operation of the Group's new production facilities in Tai Po and Suzhou; (2) an increase in new shops which take time to achieve the target sales while additional rental and staff expenses were incurred; (3) an increase in selling, distribution, advertising and promotion expenses caused mainly by the expansion of the Group's sales team in Mainland China, which affected the operating results in short run as it takes time for the sales to ramp up to the expected level under our expansion plan; (4) an increase in administrative expenses mainly incurred by an increase in the staff cost at the corporate level in anticipation of the growth in sales, which has not yet been fully realized as anticipated.

When the one-off listing-related expenses of HK$18.6 million and share-based compensation expenses relating to pre-IPO share options of HK$5.5 million were excluded, the underlying net loss attributable to the equity holders of the Company amounted to HK$14.2 million, as compared to the underlying profit of HK$40.4 million in 2013.

Capital Expenditure

During the year ended 31 December 2014, capital expenditure amounted to HK$268.7 million, including the acquisition of Taclon properties which amounted to HK$131.8 million. The balance was mainly used for the opening and revamping of the existing retail shops and the additions to other facilities in the production plant in Tai Po.

Liquidity and Financial Resources Review

Our Group is financially sound with bank deposits and cash amounting to HK$122.0 million as at 31 December 2014 (2013: HK$95.8 million).

As at 31 December 2014, the gearing ratio of the Group was 0.27 (2013: 1.2), which was calculated based on total debt divided by total equity attributable to equity holders.

As at 31 December 2014, the Group has total banking facilities of HK$224.5 million (2013: HK$170.2 million) of which HK$68.2 million (2013: HK$103.5 million) has been utilized.

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

Foreign Currency Risk

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

Contingent Liabilities

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

(ii) Taclon has several pending litigations and claims with its former employees of which provision of approximately HK$1,000,000 has been provided as at 31 December 2014.

Human Resources

As at 31 December 2014, the Group employed approximately 1,473 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on year of services and performance appraisal. The Group also implemented share option schemes.

During the year ended 31 December 2014, various training activities, such as orientation on both frontline and back office operations, customer services & selling skills, product knowledge (Herbal Master Program) and retail operations, have been conducted to improve the quality of front-end services, as well as enlightening customers consuming experience and to ensure the smooth and effective operation of the Point-of-Sales ("POS") system. Training team has also implemented continuous management trainee program to enhance the depth and breadth of the knowledge of the management staff of the Group for the purpose of their future career development.

OTHER INFORMATION

Dividends

Before the shares of the Company were listed on the Stock Exchange of Hong Kong Limited, an interim dividend amounting HK$40,000,000 was declared at a Board meeting held on 11 June 2014 and was paid out of the internal resources of the Company on the same date. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014.

Closure of Register of Members

For determining the entitlement to attend and vote at the annual general meeting ("AGM") of the Company to be held on Friday, 19 June 2015, the register of members of the Company will be closed from Wednesday, 17 June 2015 to Friday, 19 June 2015, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 16 June 2015.

Compliance Corporate Governance Code

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). For the period from 4 July 2014, the date of listing of the Company (the "**Listing Date**") to 31 December 2014, the Company has been in compliance with all the code provisions of the CG Code.

Compliance with the Model Code for Securities Transactions

The Company has adopted a code of conduct (the "**Code of Conduct**") regarding directors' securities transactions on terms based on the required standard as set out in the Model Code for Securities Transactions by Directors contained in Appendix 10 to the Listing Rules. Having made specific enquiry with all the Directors, the Directors confirmed that they had been in compliance with the dealing requirements set out in the Code of Conduct from the Listing Date to 31 December 2014.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 December 2014.

Audit Committee

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

The Group's annual results for the year ended 31 December 2014 have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Publication of Annual Report

The annual report for the year ended 31 December 2014 containing all relevant information required by the Listing Rules will be despatched to shareholders of the Company and published on the Company's website (www.hungfooktong.com) and the designated website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) in due course.

On behalf of the Board of
Hung Fook Tong Group Holdings Limited
TSE Po Tat
Chairman

Hong Kong, 26 March 2015

As at the date of this announcement, the Board comprises Mr. Tse Po Tat, Ms. Wong Pui Chu, Mr. Kwan Wang Yung and Dr. Szeto Wing Fu as executive Directors, Mr. Tse Po Shing as non-executive Director, and Mr. Kiu Wai Ming, Professor Sin Yat Ming and Mr. Andrew Look as independent non-executive Directors.