HUNG FOOK TONG

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

*(Incorporated in the Cayman Islands with limited liability)*
（於開曼群島註冊成立的有限公司）

**Stock Code 股份代號：1446**

Naturally Made Wholeheartedly Good
真心製造·自然流露

# 2014 ANNUAL REPORT 年報

# CONTENTS



# CORPORATE INFORMATION

## PLACE OF INCORPORATION
Cayman Islands

## BOARD OF DIRECTORS
### Executive Directors
Mr. TSE Po Tat *(Chairman)*
Mr. KWAN Wang Yung
Dr. SZETO Wing Fu
Ms. WONG Pui Chu

### Non-Executive Director
Mr. TSE Po Shing

### Independent Non-Executive Directors
Mr. KIU Wai Ming
Professor SIN Yat Ming
Mr. Andrew LOOK

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

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

## NOMINATION COMMITTEE
Mr. KIU Wai Ming *(Chairman)*
Mr. KWAN Wang Yung
Dr. SZETO Wing Fu
Mr. Andrew LOOK
Professor SIN Yat Ming

## AUTHORISED REPRESENTATIVES
Mr. KWAN Wang Yung
Dr. SZETO Wing Fu

## COMPANY SECRETARY
Mr. TSANG Kai Ming *(HKICPA, FCCA)*

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

## COMPLIANCE ADVISER
**BOSC International Company Limited**
Suite 2608–2611, Citibank Tower
Citibank Plaza, 3 Garden Road
Central, Hong Kong

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG
12/F., ADP Pentagon Centre
98 Texaco Road, Tsuen Wan
New Territories
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 Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
**Computershare Hong Kong Investor Services Limited**
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, 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

## LEGAL ADVISER

**Deacons**
5th Floor, Alexandra House
18 Chater Road Central
Hong Kong

## COMPANY WEBSITE

www.hungfooktong.com

## STOCK CODE

1446

# Sowing the Seeds for Future Growth


**Mr. TSE Po Tat**
*Chairman and Executive Director*

## To our shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the annual results of Hung Fook Tong Group Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014.

Over the past year, the Group was able to realise a number of important milestones, the most significant of which was our successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July. This has earned the Company the coveted distinction of being the first local herbal tea company to be listed on the bourse. With a fund-raising platform now in place, we will be able to reap several benefits, including added financial flexibility, enhanced corporate governance, greater brand exposure, the ability to instil confidence among consumers and a stage for promoting the traditional Chinese herbal culture and modern wellness concept.

Still other significant objectives realised during the year include the opening of our 100th retail shop in Hong Kong, which further reinforced our No. 1 market position, and ongoing investment in the Mainland China market, leading to the further fortification of our foothold in the market. In addition, the operation of our new production plants in Tai Po, Hong Kong and Suzhou, Mainland China will result in both greater production capacity and enhanced efficiency.

Despite generally conservative consumption sentiment experienced over the past year, the Group was able to achieve revenue growth of 11.9 % and maintain our leadership position in Hong Kong. That said, the Group faced a fair share of hurdles as well, including the longer than expected breakeven period for certain new shops; the food incident in July; and an increase in operating expenses arising from future expansion initiatives and expenditures for bolstering our food safety controls. The trial operation of the Tai Po and Suzhou plants and one-off listing expenses were also matters that we had to contend with. As a result, the Group experienced a loss attributable to equity holders of the Company of HK$38.3 million in 2014 as compared to a profit of HK$34.5 million in 2013. If we exclude the one-off listing related expenses and the share based compensation expenses in relation to the pre-IPO share options, the underlying net loss attributable to equity holders of the Company in 2014 amounted to HK$14.2 million as compared to an underlying net profit of HK$40.4 million in 2013.

## SOWING THE SEEDS

Even though we saw a drop off in our performance, we trust that the actions taken in the past year, and in preceding years, are paramount for the Group's ongoing development. With regards to our retail network expansion, it has been imperative for us to continuously broaden our reach across Hong Kong and Mainland China, and we have continued to do so while at the same time closing underperforming shops. Enhancing our distribution network has also been pursued, and this has involved bolstering ties with our third-party retailers and distributors by offering appealing promotions. And we trust that such a strategy will reap long-term benefits. Greater effort has been made in marketing as well, so as to raise brand awareness and continuously attract a wide range of customers for both the retail and the wholesale business segments. Recognising that at the end of the day we are all about the products that we sell, we have consequently continued with our product diversification drive, while at the same time introduced products to specific markets that heed local tastes and preferences.

## LOOKING AHEAD

We expect the business environment to remain challenging in 2015; hence, the Group will continue to implement strategies aimed at both enhancing its business development and paving the way for long-term progress.

Mindful of such objectives, we will seek to leverage our new production plants in Hong Kong and Mainland China. With Tai Po plant already being operational , while the Suzhou plant expected to commence production in the first half of the new financial year, the facilities will be integral in supporting our business plans with increased production capacity, both in the present and towards the future. Being highly automated and equipped with the latest filling and food processing technologies, the Tai Po and Suzhou plants will also complement our objectives to enhance overall food quality and safety standards, which are constant concerns shared by the entire Group.

While efforts will be dedicated to further penetrating and improving existing markets, we will also seek to tap into new markets of good potential. The Group aims to continue to make further headway in the market with expanded product offerings and effective marketing efforts. Last but not the least, the Group will continue to exercise stringent cost controls so as to reduce the overall operating cost. We believe, with our dedication and concerted efforts, we are able to realise our objective of consolidating our leadership in the Hong Kong market and making further inroads in Mainland China.

## APPRECIATION

I wish to take this opportunity to extend my appreciation to the management and the entire workforce of the Group for their diligence and dedication during the past year. I would also like to express my gratitude on behalf of the Group to all of our business partners, shareholders and customers for their unwavering support.

**Mr. TSE Po Tat**
*Chairman and Executive Director*
Hong Kong, 26 March 2015


## 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 Group, 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 related 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%).


# DIVERSIFIED and INNOVATIVE PRODUCTS


The management believes that the "Hung Fook Tong" brand has a huge market value in the traditional herbal tea and wellness drinks market. To facilitate the Group's future growth, the Group sought to list on the Stock Exchange, 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 segment 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$35.8 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 were 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. 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 five 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 where 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's 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 raw materials and staff costs to revenue ratios 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 ten shops in Hong Kong in 2015, and have already opened two shops and secured three premises in the first quarter. 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 (豬腳薑醋) 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 two 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 its 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 necessary 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 wholesale 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 HK$722.1 million, representing an increase of 12.0% from HK$645.0 million in 2013. The increase was attributable 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 options. The staff costs-to-revenue ratio was 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 properties held by Taclon Industries Limited ("Taclon", a wholly owned subsidiary of the Company with effect from 26 March 2014) 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 (this was defined to include interest-bearing bank borrowing and other debts incurred not in the ordinary course of business) 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 utilised. For the year ended 31 December 2014, no financial instruments were used for hedging purpose.

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 Investment Limited (formerly known as Hung Fook Tong Industrial Co. Limited), 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 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 and selling skills, product knowledge (Herbal Master Programme) 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 programme to enhance the depth and breadth of the knowledge of the management staff of the Group for the purpose of their future career development.

## AWARDS AND RECOGNITIONS

The Group is fully committed to contributing to society, encouraging the healthy development of its staff and maintaining fruitful ties with all stakeholders. In recognition of its efforts, the Group was honoured with a number of accolades during the reporting period, including the following:

**Hong Kong Top Brand**
*The Chinese Manufacturers' Association of Hong Kong & Hong Kong Brand Development Council*

香 港 名 牌

**Superbrands Hong Kong 2014**
*Superbrands*

**Hong Kong Service Awards 2014**
*East Week*

**Prestigious Corporate Brand Awards 2014 — Judging Panel — Top Ten Prestigious Corporate Brand Award**
*MingPao & MSc Marketing CUHK*

**Q-Mark Elite Brand Awards 2014**
*The Federation of Hong Kong Industries*

Hong Kong Q-Mark Service Scheme

**Caring Company 2006–2014**
*The Hong Kong Council of Social Service*

**Social Capital Builder**
*Community Investment and Inclusion Fund*

**Trusted Brands 2014 — Platinum Award (Chinese Soup/ Herbal Tea Shop)**
*Reader's Digest*

**Outstanding Sales Performance Awards within a category — Beverages**
*7-Eleven*

**My Favourite MTR Shops — Delightful Food & Beverage Award**
*MTR Corporation*

**Golden Diamond Award of Consistently Outstanding Corporate Social Responsibility**
*MetroBox*

**ERB Manpower Developer Award Scheme: Manpower Developer (2013–14) and Grand Prize Award (2013–14)**
*Employees Retaining Board*

# CORPORATE SOCIAL RESPONSIBILITY


The Group is aware that to be a responsible corporate citizen, it must whole-heartedly embrace the community. Consistent with its brand value, which promotes a natural and healthy lifestyle, the Group has sought to encourage individuals and the public at large to strive for personal wellbeing.

## WORKPLACE QUALITY

### People and Development

As at 31 December 2014, the Group had 1,473 employees, comprising of 919 staff members in Hong Kong and 554 in Mainland China; about 22% have served the Group for at least five years.

The Group continued to uphold the "People-Oriented Principle". A total of 440 hours of staff training, including 262 sessions of classroom trainings, workshops, seminars and outdoor trainings have been delivered to 1,198 staff members from different departments in 2014.

The People Development Department of the Group has developed the "Star Journey" training programme, which aims to provide our frontline staff members with a series of training on a wide range of skill sets from enriching their herbal product knowledge to enhancing their communications skills, and also equipping them with managerial skills for the advancement of their career.

The annual "Beyond A Team" is a one-day workshop for our office staff, providing an opportunity to enhance their leadership, teamwork effort and communications skills through tailor-made team building activities.

### Equality

The Group is an equal opportunity employer that believes in the hiring, retention and development of employees irrespective of their race, gender, creed or physical condition. In collaboration with Hong Chi Association, the Group has provided job opportunities to its members; comprising mentally challenged individuals.

## COMMUNITY INVOLVEMENT

To be one with the community, the Group has been actively involved in a variety of projects, including the following:

### Promote Chinese Herbal Culture

In order to promulgate the missions of the Group to the public, the Hung Fook Tong Concept Shop was opened in April 2014. Located in Comix Home Base, Mallory Street, Wan Chai, which is a Grade II historic building, the shop draws inspiration from a classic herbal tea house, and is used by the Group to promote traditional Chinese herbal tea culture.

As part of the launch event for the Concept Shop, the *Hung Fook Tong Herbal Tea x Indigenous Cultural Exhibition* held from April to May 2014 enabled the public to go back in time and learn about the history and evolution of the Hong Kong herbal tea industry in a venue renovated as a traditional herbal tea shop.

### Support charitable works through sponsorships

The Group sponsored in-kind products and coupons to over 300 non-governmental organisations ("NGO"), schools and associations in 2014. The Group also supported different NGO partners' fund-raising initiatives by placing donation boxes in more than 90 of its retail shops across Hong Kong.

Among the many sponsorships, the Group has been supporting the Community Chest Skip Lunch Day for five consecutive years, through sponsorship of tens of thousands of food coupons. All proceeds raised helped support the Community Chest's "Services for Street Sleepers and Residents in Cage Homes and Cubicles" programme.

### Participate in social enterprise projects

The Group has granted the Hong Kong Rehabilitation A&E Association the franchise to operate two Hung Fook Tong retail shops, and also partnered with Hong Chi Association's Hong Chi Gourmet Bakery to launch "Five-colour cookies" in autumn 2014, which echoed the traditional Chinese herbal culture.

### Staff Volunteering

To promote the spirit of giving back to the communities, the Group and its volunteer teams took part in several charity events during the year, such as:

— Joining The Standard Chartered Hong Kong Marathon, Oxfam Trailwalker 2014 and Metro Finance Charity Football Match

— Partnering with St. James' Settlement to organise a mooncake workshop for the underprivileged families

— Partnering with Yan Chai Hospital Social Service Department to arrange a visit to an elderly centre

## ENVIRONMENTAL FRIENDLY INITIATIVES

### Surplus food donation programme

Certain Hung Fook Tong retail shops have been contributing the Group's surplus food to the food donation programmes by the People Service Centre and Tin Shui Wai Community Development Network, which aim to reduce food waste and help the underprivileged groups by redistributing surplus products.

### Incentive programme for recycling tortoise herbal jelly container

With the objective of encouraging recycling among JIKA CLUB members, bonus points are offered for every used tortoise herbal jelly container that has been cleaned and returned to the Group's retail shops for recycling.

### Donation of Plastic Shopping Bags Levy

The group donated the plastic shopping bags levy collected at the retail shops to YMCA's environmental education programme, which aims to raise the environmental awareness of underprivileged children.

# DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. TSE Po Tat**, aged 61, is the chairman (the "Chairman") and an executive Director of our Company and currently a director of 24 subsidiaries of the Company. Mr. Tse is one of our founders and responsible for our overall direction, business strategy and corporate communication. He has over 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. Mr. Tse is a committee member of the Hong Kong Federation of Restaurants and Related Trades and also of the Federation of Hong Kong Industries. He is the brother of Mr. Tse Po Shing.

**Mr. KWAN Wang Yung**, aged 60, is the managing Director and an executive Director of our Company and currently a director of 26 subsidiaries of the 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 drinks 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.

**Dr. SZETO Wing Fu**, aged 53, is the general manager and an executive Director of our Company and currently a director of 14 subsidiaries of the 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 Limited. Dr. Szeto is the chairman of Hong Kong Professional & Education Services Limited 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. He is also the administrative head and associate professor of the Department of Business Administration of Hong Kong Shue Yan University. 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 Bulacan 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 Administration from Northeast Louisiana University in May 1987 and August 1985, respectively.

**Ms. WONG Pui Chu**, aged 55, is an executive Director of our Company and currently a director of 20 subsidiaries of the 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 who established the first herbal tea shop under "Hung Fook Tong" brand in Kwai Chung, Hong Kong. She is also the mother of Mr. Chan Hiu Cheuk, a member of our senior management.

## NON-EXECUTIVE DIRECTOR

**Mr. TSE Po Shing**, aged 58, is a non-executive Director of our Company and currently a director of 13 subsidiaries of the Company. Mr. Tse was first appointed as a director of a subsidiary of the Company 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, Mr. Tse 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. He is the brother of Mr. Tse Po Tat.

## 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 Limited (company name changed to China Smarter Energy Group Holdings Limited in 2015), 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) Limited from July 1999 to September 2002. He was a director of Dah Sing Financial Holdings Limited, 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 59, was appointed as an independent non-executive Director on 11 June 2014. Professor Sin has been a member of the Faculty of Business Administration of The Chinese University of Hong Kong ("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.

Professor Sin is currently an independent non-executive director of Bossini International Holdings Limited, a company listed on the Stock Exchange (stock code: 592).

**Mr. Andrew LOOK**, aged 50, was appointed as 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), Man Sang Jewellery Holdings Limited, a company listed on the Stock Exchange (stock code: 1466), and TCL Communication Technology Holdings Limited, a company listed on the Stock Exchange (stock code: 2618).

## SENIOR MANAGEMENT

**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 three 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 Gialetti 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 Open University of Hong Kong 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 2004, she was a business development manager at RBT International Limited from June 2003 to May 2004; a product manager and a category manager at Swamex Food Service Ltd. (formerly known as Lam Soon Food Supply Co. Ltd.) from May 2000 to August 2001 and from August 2001 to December 2002 respectively; an operations and administrations manager at Lucullus Food and Wines Co. Ltd. from May 1999 to January 2000; a personnel administration manager at FPD Eurest Catering Services (formerly known as FPD Catering Services Limited) and administration manager from January 1997 to October 1997 and from March 1998 to April 1999 respectively, and an administration officer and shop manager at Délifrance (HK) Limited 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 The Hong Kong Polytechnic University in October 1992.

**Mr. Tsang Kai Ming**, aged 52, 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 Accountants. 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 production facilities in the People's Republic of China ("PRC"). 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 38, is a senior manager of our Group and responsible for marketing, advertising, visual merchandising and corporate public relations. Ms. Chou has over ten 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 35, 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 ten years of experience in the herbal drinks industry. He was a manager in our project development department between 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 38, is a manager of our Group and responsible for human resource management and people 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 Laws group 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 Company Limited 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 39, is the 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 (HK) Ltd. 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 CUHK 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.

# DIRECTORS' REPORT

The board of Directors of the Company is pleased to present to the shareholders of the Company their report together with the audited financial statements of the Group for the year ended 31 December 2014.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the production and sales of Chinese herbal drinks and other drink products, Chinese-style soups and tortoise herbal jelly under its reputable and award-winning "鴻福堂 (Hung Fook Tong)" brand. The principal activities of the subsidiaries of the Company are set out on Note 14 to the consolidated financial statements. The segment information of the operations of the Group for the year ended 31 December 2014 is set out in Note 5 to the consolidated financial statements.

## GROUP REORGANISATION

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. In preparation of the listing of the Company's shares (the "Listing") on the Stock Exchange, the Group underwent the reorganisation pursuant to which the Company became the holding company of the companies now comprising the Group on 14 March 2014. For details of the group reorganisation, please refer to the paragraph headed "History and Development — Our Reorganisation" in the prospectus of the Company dated 23 June 2014 (the "Prospectus").

## USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

Trading of the Company's shares on the Stock Exchange commenced on 4 July 2014 (the "Listing Date") and the Company received net proceeds of approximately HK$196.7 million through the issuance of a total of an aggregate of 181,700,000 shares. During the period between the Listing Date and 31 December 2014, the net proceeds from the Listing were utilized as follows:

| | As Set Out in the Prospectus HK$'million | Amount Actually Used up to 31 December 2014 HK$'million |
|---|---|---|
| Opening of new retail shops in Hong Kong and Mainland China | 101.2 | 15.5 |
| Promotion and marketing | 33.5 | 11.8 |
| Improving information system | 5.4 | 0.8 |
| Recruitment of new staff | 12.3 | 5.5 |
| Expansion of distribution network for wholesale in Mainland China | 9.9 | 0.6 |
| Repayment of bank borrowings | 19.6 | 19.6 |

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income on page 38 of this annual report.

Prior to the Listing, an interim dividend of HK$40,000,000 was declared at a board meeting held on 11 June 2014 and 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.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in Notes 23 and 24 to the consolidated financial statements and the consolidated statement of changes in equity.

## DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution to shareholders amounted to approximately HK$216.9 million comprising share premium of approximately HK$214.7 million, other reserves of approximately HK$108.0 million and after setting off accumulated losses of HK$105.8 million.

Under the Companies Law of the Cayman Islands, subject to the provisions of memorandum of association of the Company or the articles of association (the "Articles of Association"), the Company's share premium account may be applied to pay distributions or dividends to shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

## 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 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.

## FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets, equity and liabilities of the Group for the last four financial years is set out on page 104 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in property, plant and equipment and investment properties of the Group during the year are set out in Notes 15 and 16 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 22 to the consolidated financial statements.

## BANK BORROWINGS, OVERDRAFTS AND OTHER BORROWINGS

As at 31 December 2014, certain assets of the Group have been pledged to secure bank borrowing facilities, details of which and particulars of any and all bank borrowings, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2014 are set out in Note 31 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under Articles of Association of the Company or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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.

## DONATIONS

Charitable donations made by the Group during the year ended 31 December 2014 amounted to HK$62,000.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, the aggregate sales attributable to the Group's five largest customers were less than 30%. The aggregate purchases attributable to the Group's five largest suppliers during the year were approximately 30.0%. The purchases attributable to the Group's largest supplier during the year was approximately 8.6%.

None of the Directors or any of their close associates or any shareholders of the Company (who to the knowledge of the Directors own more than 5% of the Company's issued share capital) had an interest in any of the five largest suppliers or customers of the Group.

## TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

For the year ended 31 December 2014, holders of the Company's listed securities were not entitled to any tax relief and exemptions by virtue of their holdings of such securities under their legal status of the PRC.

## DIRECTORS

The Directors who held office during the year ended 31 December 2014 are:

**Executive Directors** (all appointed with effect from 10 March 2014):

Mr. Tse Po Tat *(Chairman)*
Mr. Kwan Wang Yung
Ms. Wong Pui Chu
Dr. Szeto Wing Fu

**Non-Executive Director** (appointed with effect from 10 March 2014):

Mr. Tse Po Shing

**Independent Non-Executive Directors** (all appointed with effect from 11 June 2014):

Mr. Kiu Wai Ming
Professor Sin Yat Ming
Mr. Andrew Look

Pursuant to Article 84(1) and (2) of the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire by rotation at each AGM of the Company. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he/she retires. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. In addition, code provision ("Code Provision") A.4.2 of the Corporate Governance Code (the "CG Code") also stipulates that each Director should be subject to retirement by rotation at least once every three years.

Mr. Tse Po Tat and Mr. Kwan Wang Yung shall retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Mr. Tse Po Shing will retire at the forthcoming AGM and will not offer himself for re-election.

The Company has received annual confirmation of independence from the three Independent Non-Executive Directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers them to be independent.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 21 of this annual report.

## DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has respectively entered into a service contract commencing from 11 June 2014 with the Company for a term of three years. The service contract may be terminated in accordance with the respective terms of the service contract.

Pursuant to the Company's letter of appointment, the initial term of appointment of Mr. Tse Po Shing as a non-executive Director is three years commencing from 11 June 2014.

Independent non-executive Directors were appointed pursuant to the respective letters of appointment for an initial term of three years commencing from 11 June 2014.

None of the Directors of the Company has entered or has proposed to enter into any service contract with the Company or any member of the Group other than contracts expiring or terminable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, the interests and short positions of the Directors of the Company and their associates in any shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be disclosed, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

| Name of Director | Nature of Interest | Number of Shares | Approximate Percentage of total issued shares (%) |
|---|---|---|---|
| Ms. Wong Pui Chu (Notes 1 & 2) | Interests held jointly with other persons; interest in a controlled corporation | 393,846,600 (L) | 60.07 |
| Mr. Tse Po Tat (Notes 1 & 3) | Interests held jointly with other persons; interest in a controlled corporation | 393,846,600 (L) | 60.07 |
| Mr. Kwan Wang Yung (Notes 1 & 4) | Interests held jointly with other persons; interest in a controlled corporation | 393,846,600 (L) | 60.07 |
| Mr. Tse Po Shing (Note 5) | Beneficial interest | 40,811,400 (L) | 6.22 |
| Dr. Szeto Wing Fu (Note 6) | Interest in a controlled corporation | 22,704,600 (L) | 3.46 |

Notes:

The letter "L" denotes a Director's "long position" in such shares.

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

(2) The Company was directly owned as to 29.23% (being 191,638,200 shares) by Think Expert Investments Limited ("Think Expert"). By virtue of her 100% shareholding of Think Expert, Ms. Wong Pui Chu is deemed to be interested in the same number of Shares held by Think Expert.

(3) The Company was directly owned as to 17.18% (being 112,622,400 shares) by YITAO Investments Limited ("YITAO"). By virtue of his 100% shareholding of YITAO, Mr. Tse Po Tat is deemed to be interested in the same number of Shares held by YITAO.

(4) The Company was directly owned as to 13.66% (being 89,586,000 shares) by Prestigious Time Limited ("Prestigious Time"). By virtue of his 100% shareholding of Prestigious Time, Mr. Kwan Wang Yung is deemed to be interested in the same number of Shares held by Prestigious Time.

(5) Mr. Tse Po Shing is the brother of Mr. Tse Po Tat.

(6) The Company was directly owned as to 3.46% (being 22,704,600 shares) by Aolong Limited ("Aolong"). By virtue of his 100% shareholding of Aolong, Dr. Szeto Wing Fu is deemed to be interested in the same number of Shares held by Aolong.

Save as disclosed above, as at 31 December 2014, none of the Directors nor chief executive of the Company had registered an interest or a short position in any share or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, so far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company), were directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which are required to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

| Name of Shareholder | Nature of Interest | Number of Shares | Approximate Percentage of total issued shares (%) |
|---|---|---|---|
| Think Expert (Note 1) | Interests held jointly with other persons; Beneficial interest | 393,846,600 (L) | 60.07 |
| YITAO (Note 2) | Interests held jointly with other persons; Beneficial interest | 393,846,600 (L) | 60.07 |
| Ms. Chan Suk Hing Comita (Note 3) | Interest of spouse | 393,846,600 (L) | 60.07 |
| Prestigious Time (Note 4) | Interests held jointly with other persons; Beneficial interest | 393,846,600 (L) | 60.07 |
| Mrs. Kwan Chan Lai Lai (Note 5) | Interest of spouse | 393,846,600 (L) | 60.07 |
| Ms. Chiu Lai Lin (Note 6) | Interest of spouse | 40,811,400 (L) | 6.22 |

Notes:

The letter "L" denotes a substantial shareholder's "long position" in such shares.

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

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

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

(4) The interest of Prestigious Time was disclosed as the interest of Mr. Kwan Wang Yung in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares".

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

(6) Ms. Chiu Lai Lin is the spouse of Mr. Tse Po Shing and is therefore deemed to be interested in the shares that Mr. Tse Po Shing is interested in under the SFO.

Save as disclosed above, as at 31 December 2014, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who, had registered an interest or a short positions in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors or their respective associates to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

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

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

The Share Option Scheme will remain in force for a period of ten years from its effective date. Subject to certain restrictions contained in the Share Option Scheme, an option may be exercised in accordance with the terms of the Share Option Scheme and the terms of grant thereof at any time during the applicable option period, which is not more than ten years from the date of grant of option. There is no general requirement on the minimum period for which 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, the 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 the Board may determine in its absolute discretion.

The Board confirms that the Share Option Scheme is in compliance with Chapter 17 of the Listing Rules. As at the date of this annual report, no option had been granted, exercised, cancelled or lapsed under the Share Option Scheme. A total of 63,200,000 shares are available for issue under the Share Option Scheme, representing approximately 9.64% of the total issued capital of the Company as at the date of this annual report.

Notes:

1. "Eligible Participant'" includes: (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.

2. The exercise price for any share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall be not less than the highest of (i) the closing price of a share as stated in the Stock Exchange's daily 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 effects of alterations to capital.

## PRE-IPO SHARE OPTION SCHEME

On 11 June 2014, the Company adopted a pre-IPO share option scheme ("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 the Group and 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 the Group. Pursuant to the Pre-IPO Share Option Scheme, on 16 June 2014 the Company granted the pre-IPO share options to subscribe for an aggregate of 12,636,000 shares in the Company to certain employees, executives and officers of the Group. As at the date of this annual report, the maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 12,422,000 shares, representing approximately 1.89% of the Company's issued share capital.

Details of the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 December 2014 are as follows:

| Name of Grantee | At 1 January 2014 | Date of Grant | Exercisable Period | Exercise Price (HK$) | At 31 December 2014 | Fair Value per Share at Date of Grant (Note 1) |
|---|---|---|---|---|---|---|
| Chan Hiu Cheuk (Note 2) | – | 16.06.2014 | 04.01.2015 – 04.07.2017 | 1.00 | 450,000 | 0.44 |
| Tse Kei Tai (Note 3) | – | 16.06.2014 | 04.01.2015 – 04.07.2017 | 1.00 | 20,000 | 0.44 |
| | | | | | 470,000 | |
| Other employees | – | 16.06.2014 | 04.01.2015 – 04.07.2017 | 1.00 | 12,166,000 | 0.44 |
| Total | | | | | 12,636,000 | |

Notes:

(1) The fair value of the share options granted is estimated based on Binomial Model.

(2) Mr. Chan Hiu Cheuk is the son of Ms. Wong Pui Chu, one of the Controlling Shareholders and an executive Director.

(3) Mr. Tse Kei Tai is the son of Mr. Tse Po Tat, one of the Controlling Shareholders and an executive Director.

The pre-IPO share options granted under the Pre-IPO Share Option Scheme shall become exercisable 6 months following the Listing Date at an exercise price of HK$1.00 per share. The pre-IPO share options that are not exercised by the grantees prior to the third anniversary of the Listing Date shall lapse and be deemed as cancelled and void. As at the date of this annual report, four of the Grantees ceased to be employed by the Group, a total of 214,000 pre-IPO share options were lapsed accordingly.

Further details of the share options are set out in Note 25 to the consolidated financial statements.

## DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no contracts of significance to which the Company or any of its subsidiaries was a party and in which any Director or Controlling Shareholders of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2014 or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2014, the Directors were not aware of any business or interest of the Directors and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

## REMUNERATION FOR DIRECTORS

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established a remuneration committee to formulate remuneration policies. Directors' remuneration are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties and responsibilities, the recommendations of the remuneration committee and the performance and results of the Group. Details of the remuneration of the Company's Directors are set out in Note 9 to the consolidated financial statements.

## CHANGE IN INFORMATION OF DIRECTOR

The change in information of Director is set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Andrew Look has been appointed as an independent non-executive director, the chairman of the remuneration committee and members of the audit committee and nomination committee of Man Sang Jewellery Holdings Limited (Stock Code: 1466) with effect from 26 September 2014.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules since the Listing Date to 31 December 2014.

## DEED OF NON-COMPETITION

The Controlling Shareholders, including the company wholly owned by each of them respectively, have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 13 June 2014. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the deed of non-competition have been complied with by the Controlling Shareholders and duly enforced since the Listing Date and up to the date of this annual report.

## EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2014 and up to the date of this annual report.

## AUDITORS

PricewaterhouseCoopers will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 19 June 2015 to seek shareholders' approval on the appointment of PricewaterhouseCoopers as the Company's auditor until the conclusion of the next AGM and to authorise the Board to fix their remuneration.

## RELATED PARTY TRANSACTIONS

Details of related party transactions undertaken in the normal course of business of the Group are provided under Note 32 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed. The Company have complied with disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2014.

By order of the Board

**Tse Po Tat**
*Chairman*

Hong Kong, 26 March 2015

## CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company is committed to maintaining the highest possible standards of corporate governance, and strives to maintain transparent, responsible and value-driven management practices that will enhance and safeguard the interests of shareholders. The Board believes that effective and high quality corporate governance is an essential platform for creating value for shareholders. It is committed to continuously reviewing and improving the Group's corporate governance practices, and maintaining the highest standards of ethical corporate behaviour across the organisation.

The Company has adopted the Code Provisions set out in the CG Code under Appendix 14 of the Listing Rules. The corporate governance principles of the Company emphasise a quality board, sound internal controls, and transparency and accountability to all the shareholders. Between the Listing Date and 31 December 2014, the Company had complied with all the Code Provisions set out in the CG Code except for Code Provision A.2.7. However, the Company shall comply this Code Provision subsequently after a meeting between the Chairman and the non-executive Directors, without the presence of the executive Directors, to be held before its first anniversary of the Listing Date on 4 July 2015.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct governing securities transactions by its Directors based generally on the Model Code. The Board believes that the code adopted by the Company is equivalent in its effects to the Model Code.

The Company requires any Director wishing to deal in the Company's shares to make a specific written declaration of that intention, and to gain approval from the managing Director. If the managing Director declares an intention of dealing in the Company's shares, he must first gain approval from the Chairman of the Company.

The Company has made specific enquiry of all Directors, and each Director has confirmed that he or she has complied with the standard set out in the CG Code during the period from the Listing Date to the date of this annual report.

## BOARD OF DIRECTORS

### Responsibilities of the Board

The Board has multiple responsibilities to the Company, including setting strategic goals, establishing long-term strategies, and ensuring that the necessary financial and human resources are in place for the Company to meet its business objectives. It is also tasked with establishing a framework of effective controls for managing risk, with the particular aim of safeguarding the Company's assets and the interests of shareholders. Further, the Board is responsible for reviewing the performance of the Company's management and, more generally, setting and consolidating the Company's values and standards.

The Board exercises objective judgment independently from the Company's management on corporate affairs, and no individual or small group dominates the decisions of the Board. The Chairman of the Company is Mr. Tse Po Tat. The Company does not have an office of chief executive officer ("CEO"), but the managing Director, Mr. Kwan Wang Yung, performs a role comparable to that of CEO. The roles of Chairman and managing Director are quite separate and their functions do not overlap.

As at the date of this annual report, the Board comprises eight members, made up of four executive Directors, one non-executive Director, and three independent non-executive Directors. The current Board members are:

| Name | Position |
|---|---|
| Mr. TSE Po Tat | Chairman and Executive Director |
| Mr. KWAN Wang Yung | Managing Director and Executive Director |
| Dr. SZETO Wing Fu | General Manager and Executive Director |
| Ms. WONG Pui Chu | Executive Director |
| Mr. TSE Po Shing | Non-Executive Director |
| Mr. KIU Wai Ming | Independent Non-Executive Director |
| Professor SIN Yat Ming | Independent Non-Executive Director |
| Mr. Andrew LOOK | Independent Non-Executive Director |

Detailed biographies of the Directors can be found on pages 18 to 19 of this annual report. Mr. Tse Po Tat and Mr. Tse Po Shing are brothers. All Directors are elected for a term of three years, subject to retirement by rotation and re-election at the Company's AGM.

The Directors bring a good balance of skills and experience to the Company. They have been made fully aware of their collective and individual responsibilities to shareholders.

The Company has an official written policy relating to the diversity of Board members. Under this policy, the diversity of the Board is considered in terms of factors such as gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on merit, and candidates are considered against various objective criteria, with due regard for the benefits of diversity on the Board. Oversight of this Board diversity policy is the responsibility of the nomination committee.

The Company has one non-executive Director, Mr. Tse Po Shing, who plans to retire at the forthcoming AGM and will not stand for re-election. The Company also has three independent non-executive Directors, who between them bring a wide range of business and financial experience to the Board. By their active participation in Board meetings and by their service on various Board committees, the independent non-executive Directors contribute in important ways to the effective direction and strategic decision-making of the Group. All of the Company's independent non-executive Directors meet the Listing Rules guidelines for assessing independence, and each has signed a declaration confirming independence.

From the Listing Date to 31 December 2014, the Board at all times met the requirement of Rules 3.10(1) and (2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors.

## Directors' induction and development

Newly appointed Directors receive a comprehensive induction package on appointment. This ensures that each Director has a proper understanding of the operations, business and governance policies of the Group, which is supplemented with appropriate induction training. This understanding is deepened and continued by the Directors' participation in Board meetings and their work on various committees. In the year ended 31 December 2014, all Directors complied with the provision of the CG Code in relation to continuous professional development. In doing so, Directors have undertaken various forms of activities that have included attending a presentation given by an external professional advisor, and reading materials relevant to the Company's business, director's duties and responsibilities. The Company intends to offer internal training to Directors to ensure they enjoy ongoing development opportunities to refresh their knowledge and skills, and is currently exploring ways of setting up appropriate training programmes. It also encourages Directors to undertake external training to broaden their management capabilities and experience.

### Board meetings

The Board scheduled two meetings between the Listing Date and 31 December 2014, at approximately quarterly intervals. All Directors attended both meetings. The Company expects to hold at least four Board meetings per year, with special Board meetings being scheduled as required. Formal notice of at least 14 days will be given in respect of a regular meeting, while for special Board meetings, reasonable notice will be given.

## BOARD COMMITTEES

The Board has established certain Board committees to oversee specific aspects of the Company's affairs and help it in the execution of its responsibilities. These committees each have specific written terms of reference which clearly outline the committees' authority and duties, and which require the committees to report back on their decisions or recommendations to the Board. The committees are described individually below. Independent non-executive Directors play an important role in these committees, ensuring that independent and objective views are expressed.

### Remuneration Committee

The role of the remuneration committee is to establish a formal and transparent procedure for developing remuneration policy, and in particular to formulate and recommend to the Board policies and structures for the remuneration of Directors and senior management. Specifically, this involves it in periodically reviewing and making recommendations to the Board on remuneration packages and discretionary bonuses for Directors and senior management, in the light of remuneration offered by comparable companies in the industry and other relevant factors. It is made up of three members as follows: Professor Sin Yat Ming (chairman), Ms. Wong Pui Chu and Mr. Kiu Wai Ming. No meeting was held between the Listing Date and 31 December 2014. Subsequent to 31 December 2014, the remuneration committee held one meeting, which was attended by all of its members. At the meeting, the remuneration committee discussed the remuneration policy and the proposed salary increment of the Directors and senior management for the Board's approval.

Based on recommendations from the remuneration committee, members of senior management (excluding Directors) were remunerated within the following salary bands:

| Emolument Band | Number of Individuals |
|---|---|
| Below HK$1,000,000 | 5 |
| HK$1,000,001 to HK$1,500,000 | 3 |

The details of the fees and other emoluments paid or payable to the Directors are set out in details in Note 9 to the consolidated financial statements.

### Nomination Committee

The primary role of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board. As part of this process, the nomination committee annually reviews the structure, size and composition of the Board (including its mix of skills, knowledge and experience), makes recommendations on proposed changes to the Board to complement the Company's corporate strategy, makes recommendations to the Board on the appointment or re-appointment of Directors, and assesses the independence of independent non-executive Directors. It also oversees the implementation of the Company's written policy to ensure diversity of Directors. It is made up of five members as follows: Mr. Kiu Wai Ming (chairman), Mr. Kwan Wang Yung, Dr. Szeto Wing Fu, Professor Sin Yat Ming and Mr. Andrew Look. No meeting of the nomination committee was held between the Listing Date and 31 December 2014. Subsequent to 31 December 2014, a meeting was held which was attended by all members of the nomination committee.

At the meeting, the nomination committee assessed the independence of the independent non-executive Directors, recommended to the Board on the re-election of Directors, and reviewed the existing structure, size and composition of the Board.

## Audit Committee

The role of the audit committee is to make recommendations to the Board on the appointment or removal of the external auditor, to review the Company's financial statements, to provide the Board with material advice in respect of financial reporting, and to oversee the internal control procedures of the Company. The audit committee consists of Mr. Andrew Look (chairman), Mr. Kiu Wai Ming and Professor Sin Yat Ming, all of whom are independent non-executive Directors. Between the Listing Date and 31 December 2014 it met on two occasions, attended by all of its members.

At the meetings, the audit committee reviewed the unaudited interim financial statements for the six months ended 30 June 2014 and made recommendations to the Board for approval. It also reviewed and approved the internal audit charter and the audit plan, and discussed with management and the external auditors issues concerning accounting policies and practices which may affect the Group, along with financial reporting matters. Other functions that the audit committee either has taken or will take responsibility for are reviewing and making recommendations for the Board's approval of the annual consolidated financial statements of the Group, reviewing the system of internal control, reviewing the interim review report and the audit service memorandum presented by the external auditor, and determining the interim and final audit fee of the external auditor.

## Strategy and Development Committee

The role of the strategy and development committee is to analyse market trends and help formulate the Company's business strategies and plans from time to time, and make appropriate recommendations to the Board. The strategy and development committee consists of three members, namely Mr. Kwan Wang Yung (chairman), Ms. Wong Pui Chu and Dr. Szeto Wing Fu. It met in three occasions between the Listing Date and 31 December 2014. All members attended the three meetings, at which strategies concerning business development and the investment of surplus funds, and plans relating to the daily operations of the Group, were discussed.

## Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Group's assets, and reviewing the effectiveness of this annually through the audit committee. The audit committee reports to the Board on any material issues and makes recommendations to the Board.

Procedures have been put in place to safeguard the Group's assets against unauthorised use or disposal, to ensure proper accounting records are kept so that reliable financial information can be provided when required, and to ensure compliance with all applicable laws and regulations. These procedures have been based on industry norms and are designed to provide reasonable assurance and protection against errors, losses and fraud.

The Company has established an internal audit department whose job is to conduct regular internal audits of the Group. These are risk-based audits designed to review the effectiveness of the Group's material internal controls so as to provide assurance that key business and operational risks are identified and managed, and to ensure that the internal control measures are carried out appropriately and are functioning as intended. The internal audit department reports its findings to the Board and makes recommendations to improve the internal control of the Group.

The importance of internal controls and risk management is communicated to staff members in order to foster an environment in which internal controls are understood and respected within the Group. The Company also has a formal written whistle-blowing policy to enable staff members to communicate their concerns about any aspect of internal operations.

The Board reviewed the effectiveness of the Group's internal control system at its Board meeting on 26 March 2015, including its financial, operational and compliance controls, and its risk management functions. The Board's review included a consideration of the internal control evaluations conducted by the executive management, and the internal and external auditors. This annual review also considered the adequacy of resources, staff qualifications and experience, training programmes, and the budget of the Group's internal audit function.

## Auditor's Remuneration

The remuneration paid or payable to PricewaterhouseCoopers, independent auditor of the Company, in respect of the audit services related to the audit for the year ended 31 December 2014 and interim review for the six months ended 30 June 2014 amounted to HK$2.5 million.

The remuneration paid or payable to PricewaterhouseCoopers in respect of the services related to the global offering and other permissible non-audit services amounted to HK$5.5 million and HK$0.2 million, respectively.

## Directors' and Auditor's Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report on pages 36 to 37 of this annual report.

## Company Secretary

The Company's financial controller, Mr. Tsang Kai Ming, also acts as the company secretary. He is the primary contact person within the Company for all matters relating to the duties and responsibilities of the company secretary.

## Shareholders' rights

The Company is committed to maximizing transparency for shareholders, and ensuring that shareholders have clear knowledge of decisions made by the Company. The Company has a clear written policy relating to shareholders' communication. Under the policy, the annual shareholders' meetings and other shareholders' meetings of the Company are the primary forum for communication by the Company with its shareholders, and for shareholder participation. The Company encourages and supports shareholder participation in shareholders' meetings. In addition, the Company's website (www.hungfooktong.com) contains extensive company information which is easily accessible. Mechanisms for enabling shareholder participation will be reviewed on a regular basis by the Board to encourage the highest level of participation.

*Convening an Extraordinary General Meeting of the Company by Shareholders*

In accordance with Article 58 of the Articles of Association of the Company, an extraordinary general meeting can be convened on the requisition of any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

*Procedures for Making Proposals at Shareholders' Meetings*

There are no provisions in the Articles of Association or the Companies Law of the Cayman Islands for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceeding paragraph. Shareholders can also send enquiries and proposals putting forward for shareholders' consideration at shareholders' meetings to the Board in writing to the Hong Kong office of the Company whose contact details are as follows or directly by raising questions at the general meeting of the Company.

12/F., ADP Pentagon Centre
98 Texaco Road, Tsuen Wan
New Territories
Hong Kong

## Articles of Association

There was no amendment made to the constitutional documents of the Company between its incorporation and 31 December 2014.

羅兵咸永道

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF HUNG FOOK TONG GROUP HOLDINGS LIMITED**
*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Hung Fook Tong Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 26 March 2015

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

| | Note | Year ended 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| Revenue | 5,6 | **722,072** | 645,049 |
| Cost of sales | 8 | **(298,092)** | (257,950) |
| **Gross profit** | | **423,980** | 387,099 |
| Other income | 7 | **1,064** | 1,143 |
| Other gains/(losses), net | 7 | **869** | (64) |
| Selling and distribution costs | 8 | **(73,076)** | (55,249) |
| Administrative expenses | 8 | **(382,459)** | (282,407) |
| **Operating (loss)/profit** | | **(29,622)** | 50,522 |
| Finance income | 10 | **1,032** | 4,303 |
| Finance costs | 10 | **(5,429)** | (6,304) |
| Finance costs, net | 10 | **(4,397)** | (2,001) |
| **(Loss)/profit before income tax** | | **(34,019)** | 48,521 |
| Income tax expense | 11 | **(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) | 12 | **(6.82)** | 7.27 |
| **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 | 13 | **40,000** | – |

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

| | Note | As at 31 December<br>**2014**<br>**HK$'000** | <br>2013<br>HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Leasehold land | 15 | **32,987** | – |
| Property, plant and equipment | 15 | **252,057** | 44,505 |
| Investment properties | 16 | **829** | 858 |
| Amounts due from related companies | 32 | **–** | 61,655 |
| Prepayments and deposits | 20 | **29,683** | 15,812 |
| Deferred income tax assets | 26 | **3,905** | 4,692 |
| | | **319,461** | 127,522 |
| **Current assets** | | | |
| Inventories | 17 | **36,688** | 29,375 |
| Trade receivables | 19 | **55,068** | 66,414 |
| Prepayments, deposits and other receivables | 20 | **24,620** | 31,026 |
| Amounts due from related companies | 32 | **1,033** | 42,212 |
| Amounts due from directors | 33 | **–** | 43,338 |
| Tax recoverable | | **6,600** | 480 |
| Pledged bank deposits | 21 | **24,326** | 22,031 |
| Bank deposits with original maturity over 3 months | 21 | **10,030** | 9,042 |
| Cash and cash equivalents | 21 | **87,685** | 64,738 |
| | | **246,050** | 308,656 |
| **Total assets** | | **565,511** | 436,178 |
| **Equity** | | | |
| Share capital | 22 | **6,557** | – |
| Share premium | 22 | **214,650** | – |
| Reserves | 23 | **28,066** | 102,297 |
| | | **249,273** | 102,297 |
| Non-controlling interests | | **4,310** | 2,704 |
| **Total equity** | | **253,583** | 105,001 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

| | Note | As at 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Provision for reinstatement costs | 29 | **4,837** | 1,540 |
| Deferred income tax liabilities | 26 | **342** | 286 |
| Bank borrowings | 31 | **13,645** | 23,029 |
| Obligation under finance leases | | **1,890** | 2,495 |
| | | **20,714** | 27,350 |
| **Current liabilities** | | | |
| Trade and bill payables | 27 | **28,505** | 34,863 |
| Accruals and other payables | 28 | **86,822** | 47,386 |
| Provision for reinstatement costs | 29 | **2,339** | 3,730 |
| Receipts in advance | 30 | **116,252** | 105,521 |
| Amounts due to related companies | 32 | **–** | 19,082 |
| Amounts due to directors | 33 | **–** | 9,784 |
| Bank borrowings | 31 | **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 |

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 38 to 103 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

**Mr. TSE Po Tat**
*Director*

**Mr. Kwan Wang Yung**
*Director*

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

| | Note | 2014<br>HK$'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Interests in subsidiaries | 14 | **228,626** |
| **Current assets** | | |
| Prepayments, deposits and other receivables | | **367** |
| Cash and cash equivalents | 21 | **3,253** |
| | | **3,620** |
| **Total assets** | | **232,246** |
| **EQUITY** | | |
| Share capital | 22 | **6,557** |
| Share premium | 22 | **214,650** |
| Reserves | 24 | **7,718** |
| **Total equity** | | **228,925** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accruals and other payables | | **3,321** |
| | | **3,321** |
| **Total equity and liabilities** | | **232,246** |
| **Net current assets** | | **299** |
| **Total assets less current liabilities** | | **228,925** |

The notes on pages 44 to 103 are an integral part of these financial statements.

The financial statements on pages 38 to 103 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

**Mr. TSE Po Tat**
*Director*

**Mr. KWAN Wang Yung**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 | Share based compensation reserve HK$'000 | Exchange reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total Equity HK$'000 |
| **For the year ended 31 December 2013** | | | | | | | | | |
| Balance at 1 January 2013 | – | – | 8,123 | – | 2,371 | 56,463 | 66,957 | 1,099 | 68,056 |
| **Comprehensive income** | | | | | | | | | |
| Profit for the year | – | – | – | – | – | 34,468 | 34,468 | 1,505 | 35,973 |
| **Other comprehensive income** | | | | | | | | | |
| Currency translation differences | – | – | – | – | 872 | – | 872 | 100 | 972 |
| **Total comprehensive income for the year** | – | – | – | – | 872 | 34,468 | 35,340 | 1,605 | 36,945 |
| **Balance at 31 December 2013** | – | – | 8,123 | – | 3,243 | 90,931 | 102,297 | 2,704 | 105,001 |
| **For the year ended 31 December 2014** | | | | | | | | | |
| Balance at 1 January 2014 | – | – | 8,123 | – | 3,243 | 90,931 | 102,297 | 2,704 | 105,001 |
| **Comprehensive income** | | | | | | | | | |
| Loss for the year | – | – | – | – | – | (38,345) | (38,345) | (315) | (38,660) |
| **Other comprehensive loss** | | | | | | | | | |
| Currency translation differences | – | – | – | – | (1,076) | – | (1,076) | (29) | (1,105) |
| Release of exchange reserve upon disposal of a subsidiary | – | – | – | – | (338) | – | (338) | – | (338) |
| **Total comprehensive loss for the year** | – | – | – | – | (1,414) | (38,345) | (39,759) | (344) | (40,103) |
| **Transaction with equity holders** | | | | | | | | | |
| Issuance of shares (Note 22) | 6,557 | 214,650 | – | – | – | – | 221,207 | – | 221,207 |
| Share based compensation expenses | – | – | – | 5,528 | – | – | 5,528 | – | 5,528 |
| Dividends | – | – | – | – | – | (40,000) | (40,000) | – | (40,000) |
| Capital contribution from non-controlling interests | – | – | – | – | – | – | – | 1,950 | 1,950 |
| | 6,557 | 214,650 | – | 5,528 | – | (40,000) | 186,735 | 1,950 | 188,685 |
| **Balance at 31 December 2014** | 6,557 | 214,650 | 8,123 | 5,528 | 1,829 | 12,586 | 249,273 | 4,310 | 253,583 |

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

| | Note | Year ended 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 34(a) | **26,449** | 68,307 |
| Income tax paid | | **(10,762)** | (9,106) |
| Net cash generated from operating activities | | **15,687** | 59,201 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(85,396)** | (15,609) |
| Proceeds from disposal of property, plant and equipment | 34(b) | **1,514** | 21 |
| Reinstatement costs paid for shop and office premises | 29 | **(781)** | (364) |
| (Advance to)/repayment from related parties | | **(32,012)** | 16,893 |
| Increase in pledged bank deposits | | **(988)** | (2,145) |
| Increase in bank deposit with original maturity over 3 months | | **(2,295)** | (7,900) |
| Interest received | | **1,032** | 297 |
| Acquisition of Taclon properties, net of cash and cash equivalents acquired | 37 | **(531)** | – |
| Advances to directors | | **–** | (10,188) |
| Repayment from directors | | **–** | 363 |
| Net cash used in investing activities | | **(119,457)** | (18,632) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | **134,730** | 88,625 |
| Repayment of bank borrowings | | **(209,627)** | (84,917) |
| Repayment of obligation under finance leases | | **(1,040)** | – |
| Proceeds from obligation under finance leases | | **590** | 3,388 |
| Proceeds from issuance of ordinary shares | | **236,220** | – |
| Share issuance costs | | **(15,013)** | – |
| Dividend paid | | **(14,660)** | – |
| Interest paid | | **(5,429)** | (6,304) |
| Investment by non-controlling interests | | **1,950** | – |
| Net cash generated from financing activities | | **127,721** | 792 |
| **Net increase in cash and cash equivalents** | | **23,951** | 41,361 |
| Effect of currency translation difference | | **(1,041)** | 587 |
| Cash and cash equivalents at beginning of year | | **64,731** | 22,783 |
| **Cash and cash equivalents at end of year** | 21(c) | **87,641** | 64,731 |

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION OF THE GROUP AND GROUP REORGANISATION

### 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 (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 of Directors 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 (the "BVI"). 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 completion of the Reorganisation, the Company became the holding company of the Operating Companies.

## 1 GENERAL INFORMATION OF THE GROUP AND GROUP REORGANISATION (Continued)

### 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 Hung Fook Tong Group Holdings Limited 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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 37) 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

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 (2011) (Amendment) | Defined Benefit plans: Employee Contributions | 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

A subsidiary is an entity (including structured entity) 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 consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method 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. 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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

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 statement of profit or loss.

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.

(b) *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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries (Continued)

**2.2.1 Consolidation** (Continued)

(c) *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 the statement of profit or loss. 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 statement of profit or loss.

**2.2.2 Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 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 each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and Group's presentation currency.

**(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 profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Foreign currency translation (Continued)

**(c) Group companies**

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of profit or loss 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 in other comprehensive income.

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.

**(d) Disposal of foreign operation and partial disposal**

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to statement of profit or loss.

### 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 to the statement of profit or loss 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Property, plant and equipment (Continued)

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:

| | |
|---|---|
| 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 2.8).

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 statement of profit or loss.

### 2.6 Leasehold land

The leasehold land has finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the costs of leasehold land over their lease term.

### 2.7 Investment properties

Investment properties, principally comprising leasehold land and buildings, are 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 properties comprise land and building held under finance lease.

Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, the investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation of the investment properties are calculated using the straight-line method to allocate cost over their estimated useful life of 50–56 years, representing the land lease period. Investment properties' carrying amount is written down immediately to its recoverable amount if the investment properties' carrying amount is greater than its estimated recoverable amount (Note 2.8).

The fair value of investment properties are disclosed in the Note 16. The fair value is assessed by taking comparable properties as a guide to current market prices.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.8 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.

### 2.9 Financial assets

#### 2.9.1 Classification

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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's 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 consolidated statement of financial position (Notes 2.13 and 2.14).

#### 2.9.2 Recognition and measurement

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.

### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 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 statement of profit or loss. 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 statement of profit or loss.

### 2.12 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.

### 2.13 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.14 Cash and cash equivalents

In the consolidated statement of cash flows, 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 consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

### 2.15 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.

### 2.16 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.

### 2.17 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 statement of profit or loss 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 the statement of profit or loss in the period in which they are incurred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 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.

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of profit or loss, 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 statement 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 consolidated 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 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.

*Outside basis differences*

Deferred income tax is provided on taxable temporary differences arising from 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 tax 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 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 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 statement of profit or loss 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. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The contributions to both schemes are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions.

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.

### 2.21 Share based payments

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Share based payments (Continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

### 2.22 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.

### 2.23 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 consolidated statement of financial position (see Note 2.5).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.24 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; when 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 consolidated statement of financial position. The Group implements a contractual expiry policy for these coupons and cards under which any unutilised prepayments are fully recognised in consolidated statement 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 properties are recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

(f) Dividend income is recognised when the right to receive payment is established.

### 2.25 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 consolidated statement of profit or loss on a straight-line basis over the period of lease.

### 2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

## 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.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

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"). Foreign exchange risk arises from future commercial transactions and recognised financial assets and liabilities.

As at 31 December 2014, if RMB had strengthened/weakened by 5% against Hong Kong dollar with all other variables held constant, pre-tax profit for the year would have been approximately HK$253,000 (2013: 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.

*(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 31. The cash deposits placed with banks generate interest at the prevailing market interest rates.

As at 31 December 2014, 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 year would have been approximately HK$15,000 (2013: 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 cash and cash equivalent.

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 2014, approximately 100% (2013: 98%), 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 2014, top 5 customers of the Group accounted for approximately 60% (2013: 51%), to the trade receivables of the Group. The Group has set up long-term cooperative relationship with these customers. In view of the history of business dealings with the customers and the collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from its customers. 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 these financial statements.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

**(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 statement 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.

| | Within 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| Trade and bill payables | **28,805** | **–** | **–** | **28,805** |
| Accruals and other payables | **85,243** | **–** | **–** | **85,243** |
| Bank borrowings | **53,463** | **5,624** | **8,904** | **67,991** |
| Obligation under finance leases | **1,151** | **1,151** | **811** | **3,113** |
| | **168,662** | **6,775** | **9,715** | **185,152** |
| **As at 31 December 2013** | | | | |
| 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 |
| | 188,257 | 8,696 | 17,059 | 214,012 |

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 Financial risk factors (Continued)

**(c) Liquidity risk** (Continued)

The table below analyses the bank borrowings and obligation under finance leases 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 repayment on demand clause.

| | Within 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| Bank borrowings | **40,586** | **15,638** | **11,767** | **67,991** |
| Obligation under finance leases | **1,151** | **1,151** | **811** | **3,113** |
| | **41,737** | **16,789** | **12,578** | **71,104** |
| **As at 31 December 2013** | | | | |
| Bank borrowings | 79,434 | 9,666 | 14,054 | 103,153 |
| Obligation under finance leases | 2,621 | 478 | 560 | 3,659 |
| | 82,055 | 10,144 | 14,614 | 106,812 |

### 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 consolidated statement 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 statement of financial position date.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 Capital risk management (Continued)

The gearing ratios at 31 December 2014 and 2013 were as follows:

| | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|
| Bank borrowings (Note 31) | **65,296** | 100,156 |
| Obligation under finance leases | **2,938** | 3,388 |
| Amounts due to related companies | **–** | 19,082 |
| Less: Pledged bank deposits, bank deposits with original maturity over 3 months and cash and cash equivalents (Note 21) | **(122,041)** | (95,811) |
| Net (cash)/debt | **(53,807)** | 26,815 |
| Total equity | **253,583** | 105,001 |
| Total capital | **199,776** | 131,816 |
| Gearing ratio | **N/A** | 20.3% |

### 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 pledged bank deposits, bank deposits with original maturity over 3 months, 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.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (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.

### (g) Share based payment

The Group is required to expense its employees' share based compensation awards in accordance with HKFRS 2 "Share-based payment". The Group measures share based compensation cost based on the fair value on the grant date of each award. This cost is recognised over the period during which an employee is required to provide service in exchange for the award or the requisite service period, usually the vesting period, and is adjusted for actual forfeitures that occur before vesting. In order to assess the fair value of share based compensation, the Group is required to use certain assumptions, including the probability of reaching the market performance, if any, and financial results targets, the forfeitures and the service period of each employee. The use of different assumptions and estimates could produce materially different estimated fair values for the share based compensation awards and related expenses.

## 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 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 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 37).

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.

## 5 SEGMENT INFORMATION (Continued)

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

| | Year ended 31 December 2014 | | | |
|---|---|---|---|---|
| | Hong Kong Retail HK$'000 | PRC Retail HK$'000 | Wholesale HK$'000 | Total HK$'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 |

## 5 SEGMENT INFORMATION (Continued)

| | Year ended 31 December 2013 | | | |
|---|---|---|---|---|
| | Hong Kong Retail HK$'000 | PRC Retail HK$'000 | Wholesale HK$'000 | Total HK$'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 | | | | (42,909) |
| 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 and amortisation | 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 HK$'000** | **PRC Retail HK$'000** | **Wholesale HK$'000** | **Elimination HK$'000** | **Total 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 |

## 5 SEGMENT INFORMATION (Continued)

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 |

The total non-current assets (other than deferred tax assets) located in Hong Kong is HK$269,234,000 (2013: HK$90,694,000) and the total non-current assets located in the PRC is HK$46,322,000 (2013: HK$32,136,000).

## 6 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 |

## 7 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) |

## 8 EXPENSES BY NATURE

| | Note | Year ended 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **239,447** | 203,976 |
| 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 |
| Advertising and promotional expenditure | | **33,575** | 25,405 |
| Amortisation of leasehold land | 15 | **713** | – |
| Depreciation of property, plant and equipment | 15 | **24,120** | 17,360 |
| Depreciation of investment properties | 16 | **29** | 29 |
| Communication and utilities | | **30,229** | 24,682 |
| Employee benefit expenses (including directors' emoluments) | 9 | **214,011** | 167,211 |
| Provision for/(reversal of provision for) obsolete inventories | 17 | **386** | (167) |
| (Reversal of)/provision for impairment on trade receivables | 19 | **(12)** | 298 |
| Legal and professional fees | | **5,497** | 1,775 |
| Auditors' remuneration | | **3,007** | 1,398 |
| Tools, repair and maintenance expenses | | **10,033** | 6,619 |
| Transportation and distribution expenses | | **34,348** | 28,633 |
| Listing-related expenses | | **18,590** | 5,889 |
| Others | | **34,249** | 22,833 |
| Total cost of sales, selling and distribution costs and administrative expenses | | **753,627** | 595,606 |

## 9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | Year ended 31 December 2014 HK$'000 | 2013 HK$'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 |

## 9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

(Continued)

### (a) Directors' and senior management's emoluments

The remuneration of each director of the Company paid/payable by the Group for the year is set out below:

**For the year ended 31 December 2014**

| | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Retirement benefit scheme contribution HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Ms. Wong Pui Chu | – | 1,194 | 99 | 17 | 1,310 |
| Mr. Tse Po Tat | – | 1,194 | – | 17 | 1,211 |
| Mr. Kwan Wang Yung | – | 1,241 | 200 | 17 | 1,458 |
| Dr. Szeto Wing Fu | – | 1,319 | 212 | 17 | 1,548 |
| | – | 4,948 | 511 | 68 | 5,527 |
| **Non-executive director** | | | | | |
| Mr. Tse Po Shing | 410 | 411 | – | 9 | 830 |
| **Independent non-executive directors** *(Note)* | | | | | |
| Mr. Kiu Wai Ming | 134 | – | – | – | 134 |
| Professor Sin Yat Ming | 134 | – | – | – | 134 |
| Mr. Andrew Look | 134 | – | – | – | 134 |
| | 402 | – | – | – | 402 |

## 9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

### (a) Directors' and senior management's emoluments (Continued)

**For the year ended 31 December 2013**

| | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Retirement benefit scheme contribution HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Ms. Wong Pui Chu | – | 959 | 97 | 15 | 1,071 |
| Mr. Tse Po Tat | – | 959 | 97 | 15 | 1,071 |
| Mr. Kwan Wang Yung | – | 1,058 | 97 | 15 | 1,170 |
| Dr. Szeto Wing Fu | – | 1,017 | 103 | 15 | 1,135 |
| | – | 3,993 | 3,994 | 60 | 4,447 |
| **Non-executive director** | | | | | |
| Mr. Tse Po Shing | – | 733 | 66 | 15 | 814 |

Note: 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.

There was no arrangement during the year ended 31 December 2014 and 2013 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.

## 9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)
(Continued)

### (b) Five highest paid individuals

For the year ended 31 December 2014, the five individuals whose emoluments were the highest in the Group include three directors (2013: four directors), whose emolument is reflected in the analysis above. The emoluments paid/payable to the remaining two individuals (2013: one individual) are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Wages, salaries and benefits in kind | **1,800** | 806 |
| Bonuses | **140** | 140 |
| Retirement benefit costs — defined contribution plans | **34** | 15 |
| Share based compensation expenses | **700** | – |
| | **2,674** | 961 |

No emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

The emoluments of the highest paid individuals fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2014** | 2013 |
| **Emolument band** | | |
| Nil to HK$1,000,000 | **–** | 1 |
| HK$1,000,001 to HK$1,500,000 | **2** | – |

## 10 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 within 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 (Note 31).

## 11 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 (Note 26)** | **841** | 1,792 |
| **Income tax expense** | **4,641** | 12,548 |

The tax on the Group's (loss)/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 | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| **(Loss)/profit before income tax** | **(34,019)** | 48,521 |
| Tax calculated at 16.5% | **(5,613)** | 8,006 |
| Effect of different tax rates applicable to subsidiaries in the respective locations | **3,386** | 1,002 |
| Income not subject to tax | **(97)** | (16) |
| Expenses not deductible for tax purposes | **1,912** | 2,100 |
| Tax losses for which no deferred income tax asset was recognised | **5,061** | 1,456 |
| Over-provision of income tax expense in prior years | **(8)** | – |
| **Tax charge** | **4,641** | 12,548 |

## 12 (LOSS)/EARNINGS PER SHARE

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders 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 equity holders 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 (Note 22) 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.

## 12 (LOSS)/EARNINGS PER SHARE (Continued)

### (c) Adjusted (Continued)

| | Year ended 31 December 2014 HK$'000 | 2013 HK$'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.

## 13 DIVIDENDS

| | 2014 HK$'000 | 2013 HK$'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.

## 14 INTERESTS IN SUBSIDIARIES — COMPANY

| | HK$'000 |
|---|---|
| Unlisted investments, at cost (Note (a)) | 107,992 |
| Amounts due from subsidiaries (Note (b)) | 202,599 |
| | 310,591 |
| Less: Provision for impairment | (81,965) |
| | 228,626 |

### (a) Investments in subsidiaries

The details of the principal subsidiaries are as follows:

| 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 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Directly held by the Company:** | | | | | | |
| Hung Fook Tong Group Limited | BVI, 17 January 2014 | Investment holding | Limited liability company | 1 share of nil par value | 100% | N/A |
| **Indirectly held by the Company:** | | | | | | |
| Hung Fook Tong Holdings Limited | Hong Kong, 6 May 1993 | Investment holding | Limited liability company | HK$111,111 | 100% | 100% |
| 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% |
| 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% |
| Hung Fook Tong Trading Company Limited | Hong Kong, 23 May 2006 | Trading of bottled drinks | Limited liability company | HK$1 | 100% | 100% |
| 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% |
| Hung Fook Tong Real Property Limited | Hong Kong, 22 July 1988 | Property investment | Limited liability company | HK$30,000 | 100% | 100% |
| Hung Fook Tong Property Leasing Limited | Hong Kong, 20 April 1993 | Administration of group rental leases | Limited liability company | HK$2 | 100% | 100% |
| Hung Fook Tong Franchisor Consultancy Limited | 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% |

## 14 INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

### (a) Investments in subsidiaries (Continued)

| 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 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Indirectly held by the Company: (Continued)** | | | | | | |
| Hung Fook Tong Herbal Tea Holdings Limited | Hong Kong, 10 January 2007 | Inactive | Limited liability company | HK$100 | **100%** | 100% |
| Quality of Life Products Company Limited | Hong Kong, 21 July 1992 | Wholesaling of coupons and catering | Limited liability company | HK$10,000 | **100%** | 100% |
| Hung Fook Tong (China) Investment Limited | Hong Kong, 25 January 2011 | Inactive | Limited liability company | HK$2 | **100%** | 100% |
| Hung Fook Tong Management Institute Limited | Hong Kong, 17 December 2005 | Provision of training courses | Limited liability company | HK$1 | **100%** | 100% |
| Hong Kong Hung Fook Tong Herbal Tea Holdings Limited | Hong Kong, 24 December 2007 | Inactive | Limited liability company | HK$1 | **100%** | 100% |
| 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% |
| 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% |
| 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% |
| Gold Work Limited | Hong Kong, 1 April 2010 | Investment holding | Limited liability company | HK$10,000 | **100%** | 100% |
| Goldmark Plastic Bottle Manufacturing Limited | Hong Kong, 11 October 2002 | Investment holding | Limited liability company | HK$100,000 | **51%** | 51% |
| 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 | **51%** | 51% |
| Hung Fook Tong International Limited | Hong Kong, 20 July 1993 | Investment holding | Limited liability company | HK$10,000 | **100%** | 100% |
| 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% |

## 14 INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

### (a) Investments in subsidiaries (Continued)

| 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 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Indirectly held by the Company: (Continued)** | | | | | | |
| 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% |
| Ming Tong Catering Management (Shanghai) Company Limited (鳴堂餐飲管理(上海)有限公司) | PRC, 12 September 2013 | Restaurant management and import and export of general merchandise | Limited liability company | RMB1,000,000 | **100%** | 100% |
| Taclon Industries Limited | Hong Kong, 15 December 1972 | Investment holding and lease of a production facility at Tai Po Inducted Estate | Limited liability company | HK$100,700,100 | **100%** | N/A |
| Hung Fook Tong Food (Suzhou) Co., Limited (鴻福堂食品(蘇州)有限公司) | PRC, 6 August 2014 | Wholesaling, import and export of food products | Limited liability company | RMB14,280,000 | **100%** | N/A |
| Luck Access Investment Develop Limited | Hong Kong, 3 December 2013 | Holding company of the joint venture business in Shanghai | Limited liability company | HK$1 | **100%** | N/A |
| Gold Medal Development Limited | Hong Kong, 20 December 2013 | Shop operations management for retail shop business in Shanghai | Limited liability company | HK$6,500,000 | **70%** | N/A |
| Hung Tong Catering Management (Shanghai) Company Limited (鴻堂餐飲管理(上海)有限公司) | PRC, 17 June 2014 | Restaurant management and wholesaling of general merchandise | Limited liability company | RMB5,013,918 | **70%** | N/A |

The English names of certain subsidiaries represent the best effort by the management of the Company in translating their Chinese names as they do not have official English names.

### (b) Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured, interest-free, have no fixed terms of repayment which is considered as quasi-equity loans to the subsidiaries by the directors.

### (c) Non-controlling interests

The total non-controlling interest as at 31 December 2014 is HK$4,310,000, of which HK$1,794,000 is for Gold Medal Development Limited and HK$2,516,000 is for Goldmark Plastic Bottle Manufacturing Limited, which the directors consider not material to the Group.

## 15 LEASEHOLD LAND AND PROPERTY, PLANT AND EQUIPMENT

### (a) Leasehold land

The Group'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:

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| **At 1 January** | **–** | – |
| Acquisition of Taclon properties (Note 37) | **33,700** | – |
| Amortisation (Note 8) | **(713)** | – |
| **At 31 December** | **32,987** | – |

Amortisation of leasehold land of HK$713,000 for the year ended 31 December 2014 (2013: nil) has been charged in 'administrative expenses'.

### (b) Property, plant and equipment

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Office and computer equipment HK$'000 | Construction in Progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | | | | | |
| 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 34(b)) | – | (58) | (24) | (1,853) | (63) | (5) | – | (2,003) |
| Depreciation (Note 8) | – | (8,469) | (245) | (7,082) | (122) | (1,442) | – | (17,360) |
| Exchange difference | – | 29 | 1 | 323 | 3 | – | – | 356 |
| **Closing net book amount** | – | 8,057 | 445 | 31,224 | 265 | 4,514 | – | 44,505 |
| **At 31 December 2013** | | | | | | | | |
| 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) |
| **Net book amount** | – | 8,057 | 445 | 31,224 | 265 | 4,514 | – | 44,505 |

## 15 LEASEHOLD LAND AND PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) Property, plant and equipment (Continued)

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Plant and machinery HK$'000 | Motor vehicles HK$'000 | Office and computer equipment HK$'000 | Construction in Progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2014** | | | | | | | | |
| Opening net book amount | – | 8,057 | 445 | 31,224 | 265 | 4,514 | – | 44,505 |
| Additions | 16,173 | 38,049 | 5,493 | 33,048 | 539 | 5,038 | 4,911 | 103,251 |
| Acquisition of Taclon properties (Note 37) | 95,150 | 51 | 488 | 237 | – | – | 35,857 | 131,783 |
| Disposals (Note 34(b)) | – | (854) | (19) | (2,025) | (62) | – | – | (2,960) |
| Transfer | 24,999 | – | – | 10,858 | – | – | (35,857) | – |
| Depreciation (Note 8) | (1,605) | (11,018) | (311) | (8,958) | (154) | (2,074) | – | (24,120) |
| Exchange difference | – | 44 | (2) | (439) | – | (5) | – | (402) |
| **Closing net book amount** | 134,717 | 34,329 | 6,094 | 63,945 | 588 | 7,473 | 4,911 | 252,057 |
| **At 31 December 2014** | | | | | | | | |
| Cost | 136,322 | 84,334 | 12,279 | 115,710 | 985 | 15,888 | 4,911 | 370,429 |
| Accumulated depreciation and impairment | (1,605) | (50,005) | (6,185) | (51,765) | (397) | (8,415) | – | (118,372) |
| **Net book amount** | 134,717 | 34,329 | 6,094 | 63,945 | 588 | 7,473 | 4,911 | 252,057 |

Depreciation of HK$3,927,000 (2013: HK$2,924,000) has been charged in 'cost of sales', HK$19,901,000 (2013: HK$14,145,000) in 'administrative expenses' and HK$292,000 (2013: HK$291,000) in 'selling and distribution costs'.

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of plant and machinery and motor vehicle were HK$4,541,000 as at 31 December 2014 (2013: HK$4,039,000).

## 16 INVESTMENT PROPERTIES

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **At 1 January** | | |
| Cost | **2,000** | 2,000 |
| Accumulated depreciation | **(1,142)** | (1,113) |
| Net book amount | **858** | 887 |
| **Year ended 31 December** | | |
| Opening net book amount | **858** | 887 |
| Depreciation (Note 8) | **(29)** | (29) |
| Closing net book amount | **829** | 858 |
| **At 31 December** | | |
| Cost | **2,000** | 2,000 |
| Accumulated depreciation | **(1,171)** | (1,142) |
| Net book amount | **829** | 858 |

Investment properties situated in Hong Kong is held under lease of over 50 years and rented out under operating lease. The investment properties have been pledged to secure general facilities granted to the Company.

The fair value of the investment properties are determined using sale comparison approach and are recognised under level 2 of the fair value hierarchy. The fair value of the investment properties are 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$6,849,000 as at 31 December 2014 (2013: HK$5,740,000). The most significant input into this valuation approach is price per square foot.

Depreciation of HK$29,000 (2013: HK$29,000) have been charged in 'administrative expenses' for the year ended 31 December 2014.

## 17 INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Raw materials | **18,555** | 12,291 |
| Work in process | **8,788** | 6,510 |
| Finished goods | **10,224** | 11,067 |
| | **37,567** | 29,868 |
| Less: Provision for obsolete inventories | **(879)** | (493) |
| | **36,688** | 29,375 |

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

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **493** | 660 |
| Provision for/(reversal of provision for) obsolete inventories (Note 8) | **386** | (167) |
| At 31 December | **879** | 493 |

## 18 FINANCIAL INSTRUMENTS BY CATEGORIES

| | | Group | |
|---|---|---|---|
| | | As at 31 December | |
| | | **2014** | 2013 |
| | Note | **HK$'000** | HK$'000 |
| **Assets as per consolidated statement of financial position** | | | |
| Loans and receivables | | | |
| — Trade receivables | 19 | **55,068** | 66,414 |
| — Deposits and other receivables | 20 | **43,662** | 38,603 |
| — Amounts due from related companies | 32 | **1,033** | 103,867 |
| — Amounts due from directors | 33 | **–** | 43,338 |
| — Pledged bank deposits | 21 | **24,326** | 22,031 |
| — Bank deposits with original maturity over 3 months | 21 | **10,030** | 9,042 |
| — Cash and cash equivalents | 21 | **87,685** | 64,738 |

## 18 FINANCIAL INSTRUMENTS BY CATEGORIES (Continued)

| | | Group | |
|---|---|---|---|
| | | As at 31 December | |
| | | **2014** | 2013 |
| | Note | **HK$'000** | HK$'000 |
| **Liabilities as per consolidated statement of financial position** | | | |
| Other financial liabilities subsequently measured at amortised cost | | | |
| — Trade and bill payables | 27 | **28,505** | 34,863 |
| — Accruals and other payables (excluding non-financial liabilities) | 28 | **85,243** | 46,060 |
| — Amounts due to related companies | 32 | **–** | 19,082 |
| — Amounts due to directors | 33 | **–** | 9,784 |
| — Bank borrowings | 31 | **65,296** | 100,156 |
| — Obligation under finance leases | | **2,938** | 3,388 |

## 19 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 |

## 19 TRADE RECEIVABLES (Continued)

As at 31 December 2014, trade receivables of HK$19,111,000 (2013: 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Overdue | | |
| Less than 30 days | **14,796** | 11,505 |
| 31–90 days | **3,767** | 7,509 |
| Over 90 days | **548** | 1,446 |
| | **19,111** | 20,460 |

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

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| HK$ | **44,184** | 47,675 |
| RMB | **10,884** | 18,739 |
| | **55,068** | 66,414 |

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

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **At 1 January** | **1,744** | 1,446 |
| (Reversal of)/provision for impairment of trade receivables (Note 8) | **(12)** | 298 |
| **At 31 December** | **1,732** | 1,744 |

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statement of profit or loss. 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.

## 20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| **Non-current portion** | | |
| Prepayments for property, plant and equipment | **5,909** | 1,718 |
| Rental deposits and other deposits | **23,774** | 14,094 |
| Total | **29,683** | 15,812 |
| **Current portion** | | |
| Prepayments | **4,732** | 6,517 |
| Security deposit for legal case | **–** | 550 |
| Rental deposits and other deposits | **9,790** | 14,044 |
| Value-added tax recoverable | **8,698** | 4,965 |
| Other receivables | **1,400** | 4,950 |
| Total | **24,620** | 31,026 |

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

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| HK$ | **31,359** | 24,985 |
| RMB | **12,303** | 13,618 |
| | **43,662** | 38,603 |

## 21 PLEDGED BANK DEPOSITS, BANK DEPOSITS WITH ORIGINAL MATURITY OVER 3 MONTHS AND CASH AND CASH EQUIVALENTS — GROUP AND COMPANY

| | Group<br>As at 31 December | |
|---|---|---|
| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
| Pledged bank deposits (Note (a)) | **24,326** | 22,031 |
| Bank deposit with original maturity over 3 months | **10,030** | 9,042 |
| Cash and cash equivalents | **87,685** | 64,738 |
| Total | **122,041** | 95,811 |

Notes:

(a) The pledged bank deposits are held in designated bank accounts mainly for the Group's banking facilities (Note 31).

(b) The carrying amounts of the Group's 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 | |
|---|---|---|
| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
| HK$ | **98,371** | 70,377 |
| USD | **94** | 681 |
| RMB | **23,558** | 24,753 |
| Others | **18** | – |
| | **122,041** | 95,811 |

(c) Cash and cash equivalents and bank overdrafts include the following for the purposes of the consolidated statement of cash flows:

| | As at 31 December | |
|---|---|---|
| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
| Cash and cash equivalents in the consolidated statement of financial position | **87,685** | 64,738 |
| Less: Bank overdrafts (Note 31) | **(44)** | (7) |
| Cash and cash equivalents in the consolidated statement of cash flows | **87,641** | 64,731 |

## 21 PLEDGED BANK DEPOSITS, BANK DEPOSITS WITH ORIGINAL MATURITY OVER 3 MONTHS AND CASH AND CASH EQUIVALENTS — GROUP AND COMPANY (Continued)

Notes: (Continued)

(c) (Continued)

**Significant restrictions**

Cash and cash equivalents and pledged deposits of HK$24,198,000 are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends. Under the regulations, the Group is also permitted to exchange RMB in the PRC for other currencies through banks authorised to conduct foreign exchange business in the PRC.

| | Company As at 31 December 2014 HK$'000 |
|---|---|
| Cash and cash equivalents | **3,253** |

The carrying amounts of the Company's cash and cash equivalents are denominated Hong Kong dollar.

## 22 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** |

## 22 SHARE CAPITAL AND SHARE PREMIUM (Continued)

(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.

## 23 RESERVES — GROUP

### (a) Capital reserve

Capital reserve of the Group represents the difference between the share capital of the subsidiaries acquired pursuant to the reorganisation over the nominal value of the share capital of the Company issued in exchange thereof.

## 23 RESERVES — GROUP (Continued)

### (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 2014, retained earnings comprised statutory reserves fund amounting to HK$607,000 (2013: HK$333,000).

## 24 RESERVES — COMPANY

| | Note | Capital reserve HK$'000 | Share based compensation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 10 January 2014 (date of incorporation)** | | – | – | – | – |
| **Total comprehensive income** | | | | | |
| Loss for the year | | – | – | (65,802) | (65,802) |
| **Transaction with owners** | | | | | |
| Investment in HFT (BVI) pursuant to the Reorganisation | 23 | 107,992 | – | – | 107,992 |
| Share based compensation expenses | 25 | – | 5,528 | – | 5,528 |
| Dividends | 13 | – | – | (40,000) | (40,000) |
| | | 107,992 | 5,528 | (40,000) | 73,520 |
| **At 31 December 2014** | | 107,992 | 5,528 | (105,802) | 7,718 |

The loss attributable to the shareholders is dealt with in the financial statements of the Company to the extent of HK$65,802,000 (2013: nil).

## 25 SHARE BASED PAYMENTS

A pre-IPO share option scheme ("Pre-IPO Share Option Scheme") was approved and adopted by the shareholders of the Company on 11 June 2014 (the "Adoption Date"). Another share option scheme ("Share Option Scheme") was also approved on the same date, 11 June 2014 by the shareholders of the Company. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme (where applicable) except for the following principal terms:

### (a) Subscription price per share

For Pre-IPO Share Option Scheme, the subscription price per share shall be HK$1.0;

For Share Option Scheme, the subscription price per share shall be determined by the Board of Directors and notified to the grantee at the time of offer of the option.

### (b) Duration of the share option schemes

For shares granted under Pre-IPO Share Option Scheme, the options will lapse automatically if the listing of the Company does not take place by 31 December 2014.

For Share Option Scheme, the scheme shall be valid and effective for a period of 10 years from the 11 June 2014, being the date which the scheme was conditionally approved and adopted.

Pursuant to the Schemes, the Board of Directors may, at its discretion, grant share options to any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to our Group or their trustee subject to the terms and conditions stipulated therein.

Movements in the number of share options of the Pre-IPO Share Option Scheme outstanding and the average exercise prices are as follows:

| | 2014 | |
|---|---|---|
| | Average exercise price in HK$ per share | Number of shares under options (in thousands) |
| At 1 January | – | – |
| Granted | 1.0 | 12,636 |
| At 31 December | 1.0 | 12,636 |

On 11 June 2014, options over 12,636,000 shares were conditionally granted under the Pre-IPO Share Option Scheme and the exercisable period is from 4 January 2015 (six months following the listing date of the Company) to 4 July 2017.

The significant inputs into the model were share price of HK$1.3 (being the upper-point of the Company's offer price range), volatility of the underlying stock of 33% (being the volatility of the stock returns of listed companies in the beverage industry in Hong Kong), risk-free interest rate of 0.78% (being the yield of 3-year fund note issued by the Hong Kong Monetary Authority) and suboptimal exercise factor of 2.88 (being the factor to account for the early exercise behavior of the share option). Options are conditional on the employees completing six months' service (the vesting period).

The fair value of options granted during the year ended 31 December 2014 determined using the Binomial Option valuation model was HK$5,528,000 and had been recognised as an expense in full in the consolidated statement of profit or loss for the year ended 31 December 2014.

## 26 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Deferred income tax assets | | |
| — to be recovered after more than 12 months | **12,689** | 4,629 |
| — to be recovered within 12 months | **61** | 63 |
| | **12,750** | 4,692 |
| Deferred income tax liabilities | | |
| — to be recovered after more than 12 months | **9,187** | 286 |

Deferred income tax assets and liabilities are offset when taxes related to the same taxation authority and where offsetting is legally enforceable. The analysis of deferred income tax assets and deferred income tax liabilities after offsetting is presented in the consolidated statement of financial position as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Deferred income tax assets — net | **3,905** | 4,692 |
| Deferred income tax liabilities — net | **342** | 286 |

The net movement on the deferred income tax account is as follows:

| | HK$'000 |
|---|---|
| **At 1 January 2013** | 6,198 |
| Charged to the consolidated statement of profit or loss (Note 11) | (1,792) |
| **At 31 December 2013** | 4,406 |
| **At 1 January 2014** | **4,406** |
| Charged to the consolidated statement of profit or loss (Note 11) | **(841)** |
| Exchange differences | **(2)** |
| **At 31 December 2014** | **3,563** |

## 26 DEFERRED INCOME TAX (Continued)

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

| | Decelerated tax depreciation HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2013 | 4,081 | 2,302 | 6,383 |
| Credited/(charged) to consolidated statement of profit or loss | 534 | (2,225) | (1,691) |
| At 31 December 2013 | 4,615 | 77 | 4,692 |
| At 1 January 2014 | **4,615** | **77** | **4,692** |
| Acquisition of Taclon properties | **–** | **4,343** | **4,343** |
| (Charged)/credited to consolidated statement of profit or loss | **(785)** | **4,502** | **3,717** |
| Exchange differences | **–** | **(2)** | **(2)** |
| At 31 December 2014 | **3,830** | **8,920** | **12,750** |

### Deferred income tax liabilities

| | Accumulated tax depreciation and others HK$'000 |
|---|---|
| At 1 January 2013 | (185) |
| Charged to consolidated statement of profit or loss | (101) |
| At 31 December 2013 | (286) |
| At 1 January 2014 | **(286)** |
| Acquisition of Taclon properties | **(4,343)** |
| Charged to consolidated statement of profit or loss | **(4,558)** |
| At 31 December 2014 | **(9,187)** |

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.

## 26 DEFERRED INCOME TAX (Continued)

The Group did not recognise deferred income tax assets of HK$28,895,000 (2013: HK$6,916,000) as at 31 December 2014 in respect of tax losses in Hong Kong and in the PRC.

The Group has unrecognised tax losses of HK$148,261,000 (2013: HK$7,786,000) as at 31 December 2014, to carry forward against future profit in Hong Kong. The acquisition of Taclon properties resulted in an increase in unrecognised tax losses of HK$132,214,000 during the year ended 31 December 2014. 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$17,727,000 (2013: HK$22,527,000) as at 31 December 2014, to carry forward against future profit in the PRC. These tax losses expire in the following years:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Expiry in year: | | |
| 2015 | **–** | 1,486 |
| 2016 | **–** | 8,629 |
| 2017 | **–** | 7,313 |
| 2018 | **2,938** | 5,099 |
| 2019 | **14,789** | – |
| | **17,727** | 22,527 |

As at 31 December 2014 management is of the view that undistributed earnings of certain subsidiaries in the PRC totalling HK$9,618,000 (2013: HK$4,405,000), are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of HK$481,000 (2013: HK$220,000) have not been recognised as at 31 December 2014, 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 are not expected to be reversed in the foreseeable future.

## 27 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 |

## 27 TRADE AND BILL PAYABLES (Continued)

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 |

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

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| HK$ | **10,777** | 7,629 |
| RMB | **17,728** | 27,234 |
| | **28,505** | 34,863 |

## 28 ACCRUALS AND OTHER PAYABLES

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Accruals for employee benefit expenses | **26,133** | 19,246 |
| Accruals for marketing and promotional expenses | **3,833** | 2,933 |
| Accruals for sales rebate | **1,054** | 994 |
| Rental and other store expenses payable | **12,622** | 11,192 |
| Office and utilities expenses payable | **3,359** | 3,057 |
| Deferred revenue | **525** | 332 |
| Consideration payable for property, plant and equipment acquired | **22,046** | – |
| Other accruals and other payables | **17,250** | 9,632 |
| | **86,822** | 47,386 |

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

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| HK$ | **74,325** | 36,287 |
| RMB | **12,497** | 11,099 |
| | **86,822** | 47,386 |

As at 31 December 2014, the Group's carrying amounts of accruals and other payables approximate their fair values.

## 29 PROVISION FOR REINSTATEMENT COSTS

| | As at 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **Non-current** | | |
| Provision for reinstatements costs | **4,837** | 1,540 |
| **Current** | | |
| Provision for reinstatements costs | **2,339** | 3,730 |
| | **7,176** | 5,270 |

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

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **At 1 January** | **5,270** | 5,244 |
| Provision during the year | **2,687** | 390 |
| Utilisation | **(781)** | (364) |
| **At 31 December** | **7,176** | 5,270 |

## 30 RECEIPTS IN ADVANCE

| | As at 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Receipts in advance | **116,252** | 105,521 |

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

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **At 1 January** | | **105,521** | 73,222 |
| Receipts from sales of pre-paid coupons and credits during the year | | **273,373** | 245,775 |
| Revenue recognised upon redemption of products by customers | a | **(245,239)** | (203,248) |
| Revenue recognised upon expiry of pre-paid coupons and credits | b | **(17,360)** | (10,306) |
| Exchange differences | | **(43)** | 78 |
| **At 31 December** | | **116,252** | 105,521 |

Note:

(a) The amounts represent revenue recognised in consolidated statement of profit or loss as a result of redemption of products by customers during the year.

(b) The amounts represent revenue recognised in consolidated statement of profit or loss for pre-paid coupons and credits expired in accordance with the contractual periods stipulated in the respective terms and conditions.

## 31 BANK BORROWINGS

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Bank overdrafts (Note 21) | **44** | 7 |
| Bank loans: | | |
| Portion due for repayment within 1 year | **39,670** | 77,120 |
| Portion due for repayment after 1 year but within 5 years which contain a repayment on demand clause | **11,937** | – |
| Portion due for repayment after 1 year but within 5 years without repayment on demand clause | **13,645** | 23,029 |
| | **65,296** | 100,156 |

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. 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 clauses are as follows:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Bank loans: | | |
| Within 1 year | **39,713** | 77,120 |
| Between 1 and 2 years | **15,883** | 7,590 |
| Between 2 and 5 years | **9,700** | 15,439 |
| | **65,296** | 100,149 |

As at 31 December 2014, the bank borrowings facilities granted to the Group were secured by the following:

(a) Corporate guarantees given by the Company and certain subsidiaries of the Company;

(b) Pledge of time deposit (Note 21);

(c) Pledge of investment properties (Note 16);

(d) A legal charge on the leasehold land and building with net carrying amount of HK$32,987,000 and HK$134,400,000 respectively;

(e) Plant and machinery and motor vehicles of HK$4,688,000 and HK$535,000 respectively.

## 31 BANK BORROWINGS (Continued)

As at 31 December 2013, the bank borrowings facilities granted to the Group were 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 32(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 21);

(f) Pledge of investment properties (Note 16).

The carrying amounts of bank borrowings approximate their fair values.

The weighted average interest rate is 3.6% as at 31 December 2014 (2013: 4.1%).

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| HK$ | **65,296** | 91,971 |
| RMB | **–** | 8,185 |
| | **65,296** | 100,156 |

## 32 RELATED PARTIES BALANCES AND TRANSACTIONS — GROUP AND COMPANY

The Company is controlled by Think Expert Investments Limited, Prestigious Time Limited and YITAO Investments Limited (all incorporated in the BVI), which collectively owns 60.1% of the Company's shares as at 31 December 2014. The remaining 39.9% of the shares are widely held. The ultimate controlling parties of Think Expert Investments Limited, Prestigious Time Limited and YITAO Investments Limited are Ms. Wong, Mr. Kwan and Mr. PT Tse, respectively.

For the purposes of these consolidated 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.

## 32 RELATED PARTIES BALANCES AND TRANSACTIONS — GROUP AND COMPANY (Continued)

The directors are of the view that the following companies were related parties that had transactions or balances with the Group as they are controlled by certain directors of the Company:

— Action Rich Investment Limited
— Hung Fook Tong China Trading Limited
— Hung Fook Tong International Holdings Limited
— AC Alliance Investment Limited (formerly known as Hung Fook Tong Industrial Co. Limited)
— Aqua Pure Distilled Water Company Limited
— Sky Kingdom Properties Limited
— A.P. Logistics Co., Limited
— Tees Beverage (H.K.) Limited
— Taclon Industries Limited
— Rainbow Hero Limited
— Charter Firm Development Limited

### Amounts due from/(to) related companies — Group

Current portion of amounts due from/(to) the related companies are unsecured, interest-free and repayable on demand, except for the 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:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| (a) Balance included in current portion | | |
| — Non trade | | |
| — Hung Fook Tong China Trading Limited | **–** | 30 |
| — AC Alliance Investment Limited | **–** | 41,827 |
| — Aqua Pure Distilled Water Company Limited | **1,033** | 149 |
| — Taclon Industries Limited | **–** | 206 |
| | **1,033** | 42,212 |
| (b) Balance included in non-current portion | | |
| — Loan advance | | |
| — AC Alliance Investment Limited | **–** | 61,655 |

Amounts due from related parties are denominated in Hong Kong dollars.

## 32 RELATED PARTIES BALANCES AND TRANSACTIONS — GROUP AND COMPANY (Continued)

### Amounts due from/(to) related companies — Group (Continued)

The Group had the following material trade and non-trade balances due to related parties:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| (c) Balance included in current portion | | |
| — Non-trade | | |
| — Sky Kingdom Properties Ltd | **–** | 8 |
| — Action Rich Investment Limited | **–** | 19,074 |
| | **–** | 19,082 |

Amounts due to related parties are denominated in Hong Kong dollars.

### Related parties transactions — Group

**(a) Transactions with related parties**

In addition to those disclosed elsewhere in the financial statements, the following transactions were undertaken by the Group with related parties during the year:

*(i) Continuing transactions*

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Rental expenses paid for office premises | | |
| — Action Rich Investment Limited | **(540)** | (540) |
| — A.P. Logistics Co., Limited | **–** | (6) |
| Logistic services expenses | | |
| — A.P. Logistics Co., Limited | **(230)** | (1,943) |
| Purchase of bottled water | | |
| — Aqua Pure Distilled Water Company Limited | **(506)** | (410) |
| Production services fee | | |
| — Aqua Pure Distilled Water Company Limited | **454** | – |

## 32 RELATED PARTIES BALANCES AND TRANSACTIONS — GROUP AND COMPANY (Continued)

### Related parties transactions — Group (Continued)

**(a) Transactions with related parties** (Continued)

*(ii) Non-continuing transactions*

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Interest income received | | |
| — Action Rich Investment Limited | **–** | 154 |
| — AC Alliance Investment Limited | **642** | 3,853 |
| | **642** | 4,007 |
| Rental expenses paid for retail outlets | | |
| — Rainbow Hero Limited | **–** | (200) |
| Consultancy fee paid | | |
| — Charter Firm Development Limited | **–** | (36) |

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 | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Fees | **812** | – |
| Salaries, allowances and benefits in kind | **11,762** | 10,336 |
| Pension costs | **211** | 195 |
| Share based compensation expenses | **1,759** | – |
| | **14,544** | 10,531 |

**(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:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Mr. Kwan, Mr. PS Tse, Mr. PT Tse and Ms. Wong | **–** | 103,545 |

## 33 AMOUNTS DUE FROM/(TO) DIRECTORS

### Amounts due from directors

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Mr. PT Tse | – | 14,883 |
| Ms. Wong | – | 11,407 |
| Dr. Szeto | – | 9,577 |
| Mr. Kwan | – | 7,125 |
| Mr. PS Tse | – | 346 |
| | – | 43,338 |

Maximum amounts due from directors outstanding during the year were as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Mr. PT Tse | **14,883** | 14,883 |
| Ms. Wong | **11,407** | 11,407 |
| Dr. Szeto | **9,577** | 9,577 |
| Mr. Kwan | **7,125** | 7,125 |
| Mr. PS Tse | **346** | 346 |
| | **43,338** | 43,338 |

### Amounts due to directors

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Ms. Wong | – | 15 |
| Mr. Kwan | – | 9,731 |
| Mr. PT Tse | – | 15 |
| Mr. PS Tse | – | 23 |
| | – | 9,784 |

The amounts due from/(to) the directors are unsecured, interest-free and repayable on demand. These balances are denominated in Hong Kong dollar.

## 34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of profit before income tax to cash generated from operations

| | Note | Year ended 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| (Loss)/profit before income tax | | **(34,019)** | 48,521 |
| Adjustments for: | | | |
| Interest income | | **(1,032)** | (4,303) |
| Interest paid | | **5,429** | 6,304 |
| Losses on disposal of property, plant and equipment | 34(b) | **1,446** | 64 |
| Share based payments | | **5,528** | – |
| Amortisation of leasehold land | 15 | **713** | – |
| Depreciation of property, plant and equipment | 15 | **24,120** | 17,360 |
| Depreciation of investment properties | 16 | **29** | 29 |
| Provision of reinstatement costs | 29 | **2,687** | 390 |
| Provision of/(reversal of provision for) obsolete inventories | 17 | **386** | (167) |
| (Reversal of)/provision of impairment loss on trade receivables | 19 | **(12)** | 298 |
| | | **5,275** | 68,496 |
| Changes in working capital: | | | |
| Increase in inventories | | **(7,699)** | (6,708) |
| Decrease/(increase) in trade receivables | | **11,358** | (17,467) |
| Increase in prepayments, deposits and other receivables | | **(3,143)** | (9,603) |
| (Decrease)/increase in trade and bill payables | | **(6,358)** | 1,725 |
| Increase in accruals and other payables and receipts in advance | | **27,016** | 31,864 |
| **Cash generated from operations** | | **26,449** | 68,307 |

### (b) Disposal of property, plant and equipment

| | Note | Year ended 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Property, plant and equipment** | | | |
| Net book value | | **2,960** | 85 |
| Gains/(losses) on disposal of property, plant and equipment | 7 | **(1,446)** | (64) |
| **Proceeds from disposal of property, plant and equipment** | | **1,514** | 21 |

## 34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (c) Non-cash transactions

**For the year ended 31 December 2014**

(i) Interim dividend of HK$40,000,000 of which HK$25,340,000 was settled against the amounts due from directors.

(ii) The total consideration of HK$82,568,000 for acquisition of Taclon properties was settled against the amounts due from related parties (Note 37).

(iii) Amount due from related companies of HK$41,410,000 was settled against the amounts due to related companies acquired from acquisition of Taclon properties.

**For the year ended 31 December 2013**

(i) Property, plant and equipment amounted to approximately HK$1,918,000 is disposed and settled against the amounts due from directors.

## 35 CONTINGENCIES

(a) Taclon 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 belonging to Taclon's ex-director. The directors are of the view that Taclon did not or does not owe the claimant the Alleged Debt and will vigorously defend Taclon's position in the legal proceeding.

Moreover, AC Alliance Investment Limited, a related company outside the Group, had confirmed, covenant and undertaken to indemnify and keep indemnified fully Taclon against any cost, loss or damages arising from the litigation.

(b) 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.

## 36 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:

| | 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.

## 36 COMMITMENTS (Continued)

### (b) Capital commitments

The Group had the following capital expenditure contracted but not 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 |

## 37 ACQUISITION OF TACLON PROPERTIES

On 26 March 2014, HFT (BVI) entered into an agreement with AC Alliance Investment 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 Investment Limited 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 | 240 |
| Amounts due to related companies | (41,410) |
| Accruals and other payables | (1,105) |
| Bank borrowings and bank overdrafts | (40,771) |
| | 82,568 |
| Satisfied by: | |
| Amounts due from AC Alliance Investment Limited and other related companies | 82,568 |

An analysis of the cash flows in respect of the Taclon Acquisition is as follows:

| | HK$'000 |
|---|---|
| Cash and cash equivalents in Taclon acquired | 240 |
| Bank overdrafts in Taclon acquired | (771) |
| Outflow of cash in relation to acquisition of Taclon properties | (531) |

# FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, equity and liabilities of the Group for the last four financial years is as follows.

## RESULTS

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **722,072** | 645,049 | 578,693 | 479,298 |
| Net (loss)/profit before tax | **(34,019)** | 48,521 | 48,115 | 9,532 |
| Income tax expense | **(4,641)** | (12,548) | (11,331) | (3,220) |
| Net (loss)/profit for the year | **(38,660)** | 35,973 | 36,784 | 6,312 |

## ASSETS AND LIABILITIES

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 |
| **Assets** | | | | |
| Non-current assets | **319,461** | 127,522 | 151,117 | 77,447 |
| Current assets | **246,050** | 308,656 | 206,501 | 189,369 |
| Total assets | **565,511** | 436,178 | 357,618 | 266,816 |
| **Equity and liabilities** | | | | |
| Total equity | **253,583** | 105,001 | 68,056 | 30,857 |
| Non-current liabilities | **20,714** | 27,350 | 3,958 | 4,246 |
| Current liabilities | **291,214** | 303,827 | 285,604 | 231,713 |
| Total liabilities | **311,928** | 331,177 | 289,562 | 235,959 |
| Total equity and liabilities | **565,511** | 436,178 | 357,618 | 266,816 |

Notes:

The summary of the consolidated results of the Group for each of the three years ended 31 December 2011, 2012 and 2013 and of the assets, equity and liabilities as at 31 December 2011, 2012 and 2013 have been extracted from the Prospectus.

The financial information for the year ended 31 December 2010 was not disclosed as consolidated financial statements for the Group have not been prepared for that year. The summary above does not form part of the audited financial statements.

MIX
Paper from responsible sources
FSC™ C102904

HUNG FOOK TONG

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

www.hungfooktong.com