



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



來自家的愛
Three Decades of Nourishment 滋養 30 載



2015 ANNUAL REPORT | 年報

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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

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

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. KWAN Wang Yung (*Chairman*)

Ms. WONG Pui Chu

Dr. SZETO Wing Fu

AUTHORIZED REPRESENTATIVES

Mr. KWAN Wang Yung

Dr. SZETO Wing Fu

COMPANY SECRETARY

Mr. LAU Siu Ki

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

22/F., Prince's Building

Central, Hong Kong

COMPLIANCE ADVISOR

BOSC International Company Limited

34/F, Citibank Tower, Citibank Plaza

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Central, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive

P. O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

11 Dai King Street

Tai Po Industrial Estate

Tai Po, New Territories

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

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183 Queen's Road East

Wanchai, Hong Kong

CORPORATE INFORMATION



PRINCIPAL BANKERS

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The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central
Hong Kong

COMPANY WEBSITE

www.hungfooktong.com

STOCK CODE

1446

CHAIRMAN'S STATEMENT

Forging Ahead from
**THREE DECADES
OF PERSEVERANCE**



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 2015.

During the latest financial year, the Hong Kong retail market remained stagnant, with the economic slowdown weighing on the minds of consumers. The doldrums were not isolated to Hong Kong, as Mainland China's GDP grew by 6.9% — the slowest in 25 years — as the country continued to restructure its economy.

In response to the lacklustre conditions, we sought to stay agile by implementing measures aimed at enhancing our competitiveness in the Group's traditional stronghold: the Hong Kong retail market. We have taken a more cautious approach towards opening new shops, though we continued to be the largest player in the industry with more than 110 retail points. Our prudent course of expansion has also enabled us to maximise exposure across strategic areas of the city while minimise risk. By complementing our wider footprint with appealing marketing and promotional campaigns, we were able to continue enjoying sales growth.

On the wholesale business front, performance was less favourable, particularly in Mainland China as weak consumption sentiment impacted on all retailers. Furthermore, we faced fierce competition and awareness of our "Hong Kong Taste" brand has yet to be fully realised. Nonetheless, to rouse public excitement, we introduced several new drink products, including our milk tea series. Also, in view of the conditions in Mainland China, we explored other markets such as Taiwan and Malaysia.

CHAIRMAN'S STATEMENT



Though the wholesale business underperformed during the past year, the retail business was able to achieve sustained growth, thus helping mitigate the impact of the former. Revenue has remained relatively stable as compared to 2014. Moreover, with the enhancement in our procurement procedures and the streamlining of work procedures, we managed to achieve a turnaround in profit.

I am pleased to report to the shareholders that the Board has resolved to recommend a final dividend and a special dividend of HK0.40 cent and HK0.36 cent per ordinary share, respectively (totalling HK0.76 cent per ordinary share).

30 YEARS: THE FOUNDATION FOR FURTHER GROWTH

2016 will be an immensely meaningful year for the Group as we will be celebrating our 30th anniversary. We are proud and grateful that we have overcome so many obstacles and changes over the past three decades. At the same time, we are aware that we have to protect all that we have achieved; hence, we will remain vigilant and highly cautious in managing the Group's development going forward.

In respect of the retail business, we achieved good sales momentum during the 2016 Chinese New Year and are optimistic about sustaining growth through the careful expansion of our operations in Hong Kong. The outlook for the wholesale business in Mainland China is expected to remain depressed however, which is why we will focus on introducing more higher-margin products to enhance profitability. We will also look at expanding our presence in overseas markets.

On the e-commerce front, we remain committed to tapping this popular shopping trend — particularly among young consumers — as highlighted by the launch of the "Hung Fook Tong Online" platform (online.hungfooktong.com) in early 2016. Embodying our "3H" concept of *Health, Herbal and Home*, we trust that our web-based business will complement our retail operation as the online shop offers a different and diverse portfolio of healthy products, hence it will eventually reinforce the Group's unique healthy and wholesome brand image. Though the online platform is still in its infancy and requires time to optimise, the potential for growth is clearly present.

While we are constantly looking ahead for new opportunities, we are also aware of the need to continuously control costs. The Tai Po plant represents one such means. Since commencing operation at the end of 2014, the plant has been operating smoothly and is an important long-term investment that will allow us to enjoy higher efficiency and production capacity. As we relocated our headquarters from Tsuen Wan to Tai Po last year, greater synergy and better resources integration were achieved as well. Separately, we will continue to enhance our procurement procedures, which include the stringent selection of suppliers and sourcing of raw materials.

Even though the upcoming year will continue to be challenging, the Group has experienced different economic cycles before, growing bigger and stronger after each experience. While utmost care is warranted in managing our business activities, we will also maintain efforts that have been effective in supporting our development, including enhancing brand value and engaging our customers and the public at large. Holding true to our motto "Naturally Made, Wholeheartedly Good", we will continue to contribute to the wellbeing of the public by preserving and sharing traditional Chinese herbal culture, as well as promoting modern wellness concepts.

APPRECIATION

I would like to take this opportunity to express my utmost gratitude to the management and the entire Hung Fook Tong workforce for their exceptional efforts over the past year. Also, my sincere appreciation is extended to all of our business partners, shareholders and customers for their long-standing support.

Tse Po Tat

Chairman and Executive Director

Hong Kong, 24 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The economic climate in Mainland China and Hong Kong was volatile during the past year, consequently impacting on the consumption sentiment of the general public. Nonetheless, the strength of the Hung Fook Tong brand particularly in Hong Kong enabled the Group to generate revenue at a similar level with the previous year, totalling HK\$723.6 million (2014: HK\$722.1 million). Gross profit rose by 3.5% year-on-year to HK\$438.9 million (2014: HK\$424.0 million), with gross profit margin climbing to 60.7% (2014: 58.7%) due primarily to the enhancement of procurement procedures and partly because of the depreciation of Renminbi ("RMB"). Further, with the successful implementation of cost control measures and not saddled with one-off expenses relating to the Group's listing and trial operation of the new production facilities in Tai Po, Hong Kong incurred in 2014, the Group returned to profitability, registering a profit attributable to owners of the Company of HK\$8.7 million, compared with a loss of HK\$38.3 million in 2014 (after the inclusion of one-off listing-related expenses of HK\$18.6 million and share-based compensation expenses of HK\$5.5 million relating to the pre-IPO share options).

BUSINESS SEGMENT ANALYSIS

Retail

The retail business contributed revenue totalling HK\$491.8 million during the reporting year (2014: HK\$480.9 million), representing a year-on-year rise of 2.3%. Profit from this segment increased notably by 41.1% to HK\$50.5 million (2014: HK\$35.8 million), and was mainly driven by significant improvements in the Hong Kong retail business.

Hong Kong

The Hong Kong retail business recorded revenue of HK\$475.7 million (2014: HK\$460.9 million) for the year, up 3.2% over 2014, and continued to represent the largest revenue contributor to the Group, accounting for 65.7% of total revenue.

Even though same store sales growth was flat during the year as consumption sentiment remained weak, prudent expansion of the retail network by the Group contributed to a rise in revenue. In all, nine new shops were opened in 2015, thus raising the total number of self-operated shops in Hong Kong to 112 as at 31 December 2015. The Group thus maintained its status as the largest herbal retailer in Hong Kong based on size of retail network. Consistent with the management's focus on high pedestrian traffic locations, shops were principally opened in shopping malls and MTR stations. The Group was also able to strengthen its presence on Hong Kong Island, with new shops in Central, Sheung Wan and Chai Wan.

Complementing the ever growing network of retail shops is an enhanced portfolio of products, which included 40 new fresh products in 2015. The Group also sought to further tap the burgeoning wedding market by launching wedding gift vouchers under the Joyous Series (自家喜慶系列). A product from the Joyous Series that has already proved to be an undeniable success is the Group's pig trotter and ginger in sweet vinegar sauce (自家豬腳薑醋), which realised exceptional sales growth on the back of stronger marketing efforts and continuing use of online channels, as well as by engaging key opinion leaders on social media platforms.

Further, the Group has reached out to some 1,250 corporate customers, while also forging ties with a renowned wedding planner.

By no means ignoring its loyal customer base, the Group maintains a strong following via JIKA CLUB, which recruited nearly 104,000 new members in 2015, thereby raising the total number of members to over 540,000 as at 31 December 2015. In an effort to bring a new level of convenience to members, an online top-up function was introduced during the year.

Three Decades **Two Pillars**



MANAGEMENT DISCUSSION AND ANALYSIS

Mainland China

Revenue from Mainland China retail operation slipped by 19.0% to HK\$16.2 million (2014: HK\$20.0 million) as the Group strategically exited the Shanghai market, consequently closing all associated shops. One-off expenses incurred from the shop closures, combined with retail operations that have yet to reach optimal operational scale led to a segment loss of HK\$9.6 million (2014: loss of HK\$7.5 million). Given that brand awareness varies across different geographical markets, the Group has focused on more stable regions, particularly Guangdong, where there is stronger awareness of the Hung Fook Tong brand. Correspondingly, three new shops were opened in Guangzhou, bringing the total number of retail shops in Mainland China to 21 as at 31 December 2015.

Wholesale

The wholesale segment recorded revenue of HK\$231.8 million (2014: HK\$241.2 million), representing a year-on-year decline of 3.9%. The shortfall was mainly due to intense competition and weak retail momentum in both Hong Kong and Mainland China. Segment profit decreased to HK\$6.0 million (2014: HK\$8.0 million).

Mainland China

Revenue from the wholesale business in Mainland China fell by 4.5% year-on-year to HK\$87.5 million (2014: HK\$91.6 million) as consumption sentiment remained weak. In Guangzhou, which is a key market for the Group, consumption was particularly lacklustre as the city was severely affected by the economic downturn. Further affecting the top line was the temporary suspension of ties with a key customer in Beijing. Since the second half of the reporting year, the Group has resumed business relations with the aforesaid customer.

As at 31 December 2015, the Group had an extensive distribution network covering 15 provinces and 46 cities in Mainland China, and maintained ties with 71 distributors. Guangdong remained the largest revenue contributor. Besides securing more key accounts in cities where good presence has already been established like Shenzhen, the Group also tapped into second-tier cities in the province including Qingyuan, Zhanjiang and Chiuchow. With respect to the Shanghai market, it has contributed more revenue from creating ties with more key accounts. It is also worth noting that the Beijing office has commenced operation, which will allow the Group to better penetrate the Northern China market.

Aside from leveraging ties with key distributors, the Group introduced several new drinks to the local market, all of which offer their own unique "Hong Kong Taste". The Group's iced milk tea, for example, entered the Shenzhen market at the end of 2015 and achieved encouraging results, thus convincing the management to expand its availability to key markets in the country. The Group also stepped up marketing efforts to woo consumers. This included organising a world record breaking event in Guangzhou, during which brand ambassador Ekin Cheng, a Hong Kong celebrity, led participants in making salted mandarin.

Hong Kong

In Hong Kong, revenue derived from the wholesale operation declined by 3.5% year-on-year to HK\$144.3 million (2014: HK\$149.6 million) due to intense competition. Nevertheless, the Group was able to retain its No. 1 position in the Wellness Drink Category in Hong Kong for the 13th consecutive year, according to Nielsen — capturing 37.5% market share. This was partly the result of the Group's efforts in launching more fresh drink products during the year which, aside from seeking to win consumers' tastes, also offer better margins. The management explored more sales channels as well via various food and beverage chains.

As a strategy to mitigate the impact of a weakening Mainland China economy, the Group continued to expand its wholesale business overseas and began to make its mark in Taiwan, introducing fresh drink products to the market since the second half of 2015. Initial response has been favourable.

MANAGEMENT DISCUSSION AND ANALYSIS



Production Facilities

The Group's production facilities are essential for meeting strict internal safety requirements and tackling key markets. Correspondingly, the Tai Po plant obtained ISO 22000 accreditation in the first quarter of 2016, having only commenced operation at the end of 2014. The achievement highlights the Group's success in food safety management and commitment to deliver products that meet the highest safety standards. With regards to tackling key markets specifically in Mainland China, the Suzhou plant commenced operation in April 2015 and will allow the Group to more effectively penetrate the eastern and northern reaches of the country in the coming years.

With the objective of helping all of the Group's plants operate at optimal capacity, the management will continue to identify suitable OEM opportunities.

PROSPECTS

Consumption sentiment in the upcoming financial year is expected to remain erratic, mirroring the economic conditions in Hong Kong and Mainland China. While the management will continue to take a cautious approach in steering the Group forward, it also recognises the need to sustain retail sales momentum generated since the second half of 2015. Moreover, with 2016 marking the 30th anniversary of the Group, the milestone represents an ideal opportunity for highlighting Hung Fook Tong's track record of success and healthy, trusted brand name among consumers and the public at large. As a local brand, the Group wishes to strengthen emotional ties with Hong Kong people by recognising the importance of family values, which also lie at the heart of the Hung Fook Tong brand. Consequently, associated promotions and campaigns that include online strategies will be initiated to reach target segments more effectively.

Retail

On the retail front, the Group is confident in its Hong Kong operation's ability to maintain its leadership position in the market. While this will include opening between six and eight new retail shops in the coming year, having already opened one MTR shop and secured another location, the management will focus on expanding the Group's footprint in areas that it currently lacks coverage.

To spur same store sales growth for its retail points, the management will continue to place effort on marketing via online and social media platforms, which enables the Group to reach a younger demographic. In addition, incentives will be offered to inactive JIKA CLUB members with the aim of encouraging consumption and building strong loyalties.

While the brick-and-mortar retail business remains the backbone of the Group's retail operation, the management is also aware of the importance of developing a web-based business. Correspondingly, a B2C online shopping platform, i.e. Hung Fook Tong Online (online.hungfooktong.com) has been launched that complements the Hong Kong retail business. Positioned as a one-stop shop for healthy lifestyle products, Hung Fook Tong Online is poised to seize the growing demand for convenient and quick shopping experiences. The management will continue to allocate resources to optimise this new business initiative.

In respect of the Group's retail operation in Mainland China, the Group will continue to identify suitable locations in Guangdong to establish additional shops that lead to better economies of scale, while cost saving measures will continue to be taken to improve efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

Wholesale

The management will take a very cautious approach towards operating the wholesale business given the highly challenging market conditions. In Mainland China market in particular, changing consumer preference has been seen, with rising interest in more high-end, unique and healthy options. The Group therefore plans to launch more flavours of drinks that have better margins to cope with this trend and enhance its competitiveness.

Geographically, Southern China will remain the primary focus of the Group. To bolster its presence in the region, the management will seek to explore more sales channels in more cities, and thereby tap a greater number of sales points. Correspondingly, the Group will seek to convert more potential retailers into key accounts as well as strengthen cooperation with key accounts through exclusive offers and other incentives.

Outside of Southern China, the Group will focus on mid to high-end retail chains to drive sales and raise brand awareness across the country. Also, with the Beijing office in operation and the resumption of ties with a key customer in the capital, the management plans to launch more products to tap the local market, such as introducing its popular milk tea in the coming summer.

Aside from developing the wholesale operation, efforts will be directed towards encouraging e-commerce. This will include partnering with popular e-retailers such as Yihaodian, Jingdong and Tmall.

With respect to the Hong Kong wholesale operation, the Group plans to expand the milk tea series by offering a wider range of flavoured teas, thus enabling it to capture the many opportunities associated with such beverages. Also, being a leader in the wellness drink market, the Group will look to consolidate its position by introducing a number of healthy drinks in the summer, all of which have natural and wholesome ingredients.

Outside of Mainland China and Hong Kong, the management will seek to enter new markets. Already in the pipeline are plans for entering South Korea and Thailand.

CONCLUSION

With the Group's 30th anniversary on the horizon, this major milestone will be celebrated in a manner that holds true to its motto: "Naturally Made, Wholeheartedly Good". Hence, while introducing products that are responsive to changing market needs, such products will also continue to embody all of the best qualities of Hung Fook Tong. The management recognises that only by doing so can the Group maintain its leadership in Hong Kong while forging a new future in Mainland China and beyond.

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL OVERVIEW

Revenue

During the year ended 31 December 2015, the Group's revenue reached HK\$723.6 million which was similar to that of HK\$722.1 million in 2014. The stable revenue was attributed to the net effect of an increase of 3.2% in Hong Kong retail sales and a decrease of 3.9% in wholesales.

Cost of Sales

During the year ended 31 December 2015, the Group's cost of sales amounted to HK\$284.7 million, representing a decrease of 4.5% from HK\$298.1 million in 2014. As a percentage of revenue, cost of sales represented 39.3% and 41.3% in 2015 and 2014 respectively.

Gross Profit and Gross Profit Margin

During the year ended 31 December 2015, the Group's gross profit amounted to HK\$438.9 million, representing an increase of 3.5% from HK\$424.0 million in 2014. The Group's gross profit margin increased by 2.0 percentage points to 60.7% as compared to 58.7% in 2014. The increase was mainly due to the decrease in the raw materials costs as a combined result of the enhancement of procurement procedures and the depreciation of the renminbi.

Staff Costs

For the year ended 31 December 2015, the Group's staff costs amounted to HK\$215.5 million, similar to that of HK\$214.0 million in 2014. The staff costs-to-revenue ratio remained stable, at 29.8% as compared to 29.6% in 2014.

Rental Expenses

For the year ended 31 December 2015, the Group's rental expenses in relation to its retail shops amounted to HK\$94.1 million, representing an increase of 7.4% from HK\$87.6 million in 2014. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-retail-revenue ratio (Hong Kong and Mainland China) rose to 19.1%, as compared to 18.2% in 2014. The increase was mainly 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 2015, the Group's advertising and promotion expenses amounted to HK\$26.8 million, representing a decrease of 20.2% from HK\$33.6 million in 2014. This accounted for 3.7% and 4.7% respectively in percentage to revenue in 2015 and 2014. Due to an unpredictable volatile market, the Group was more conservative in controlling marketing expenses during the year.

Depreciation and Amortisation

For the year ended 31 December 2015 and 2014, depreciation and amortisation of the Group amounted to HK\$34.2 million and HK\$24.9 million respectively, which amounted for approximately 4.7% and 3.4% of the Group's revenue in the respective years. The increase of 37.3% was mainly attributed to the additions in leasehold improvements and plant and machinery in the new production plant in Tai Po and Suzhou.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2015 was HK\$8.7 million, as compared to the net loss of HK\$38.3 million in 2014. The improvement in results was mainly due to (1) successful implementation of cost savings measures and enhancement in the procurement procedures which increase the gross profit margin for the year; (2) non-recurrence in the current year of the additional operating expenses incurred in the year ended 31 December 2014 for the trial operation of the Group's new production facilities in Tai Po, which has become fully operational and closure of the Group's facilities in Tsuen Wan (and hence the savings of the associated expenses) in December 2014; and (3) non-recurrence in the current year of the one-off listing-related expenses and share based compensation expenses related to pre-IPO share options scheme, which amounted to HK\$18.6 million and HK\$5.5 million, respectively, in the year ended 31 December 2014.

Capital Expenditure

During the year ended 31 December 2015, capital expenditure amounted to HK\$26.5 million. This amount was used mainly for the opening of new shops, the revamping of existing retail shops and the production facilities in Suzhou and Tai Po plant.

Liquidity and Financial Resources Review

Our Group is financially sound with bank deposits and cash amounting to HK\$146.5 million as at 31 December 2015 (2014: HK\$122.0 million).

As at 31 December 2015, the gearing ratio of the Group was 0.34 (2014: 0.27), which was calculated based on total debt divided by equity attributable to owners of the Company.

As at 31 December 2015, the Group had total banking facilities of HK\$208.7 million (2014: HK\$224.5 million) of which HK\$87.5 million (2014: HK\$68.2 million) had been utilized.

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

Foreign Currency Risk

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

MANAGEMENT DISCUSSION AND ANALYSIS



Contingent Liabilities

- (i) Taclon Industries Limited ("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, a related company outside the Group, had confirmed, covenant and undertaken to indemnify and keep indemnified fully Taclon against any cost, loss or damages arising from the litigation.
- (ii) Taclon has several pending litigations and claims with its former employees of which provision of approximately HK\$1,000,000 has been provided for as at 31 December 2015.

Human Resources

As at 31 December 2015, the Group employed approximately 1,400 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on year of services and performance appraisal. In addition, the Group has also implemented share option schemes.

During the year ended 31 December 2015, various training activities, such as orientation on both frontline and back office operations, customer services & selling skills, product knowledge (Herbal Ambassador Training Course) 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. A management trainee program was also run to enhance participants' management skills and assist in the future career development of the management talents.

MILESTONES: 30 YEARS AND MORE



1986

Opened the first herbal tea shop under the "Hung Fook Tong" name in Kwai Chung, Hong Kong



1994

Introduced fully-automated production lines to improve production efficiency



2000

Introduced plastic bottled drinks



2003

Launched long shelf-life herbal drinks in overseas markets through overseas distributors

1988-89

Established the first production facility in Kwai Chung – the first of its kind in the herbal industry



1997

Launched glass bottled herbal drinks in Hong Kong with mass production



2002

Opened the first herbal tea shop in a MTR station



2007

Opened the Group's first retail shop in Mainland China



2010

Launched tortoise jelly in portable squeezing packaging



2015

As validated by Nielsen, the Group maintained its No.1 position in the Wellness Drink Category in Hong Kong for 13th consecutive years

2016



30th Anniversary Celebration



2006

Launched "Home-made" series, comprising soups, desserts and snacks, etc.



2008

Launched membership card loyalty programme



2014

- Became the first publicly-listed local herbal tea enterprise in Hong Kong
- Highly automated new production facility in Tai Po commenced operation

CORPORATE SOCIAL RESPONSIBILITY

The Group takes its corporate social responsibility to heart, and is fully committed to making a difference for its staff, the community and the common good.

WORKPLACE QUALITY

People and Development

As at 31 December 2015, the Group maintained a workforce of 1,411, comprising 862 employees in Hong Kong and 549 employees in Mainland China. Approximately 20% of its staff have worked for at least five years with the Group.

Talent Retention

Recognising the value of its workforce, the Group has sought to provide benefits that express its appreciation for their contributions, and has introduced new benefits in 2015. For special occasions such as the weddings of close family members, such individuals are entitled to paid leave, with nuptial leave now extended from two days to three days. Further, nursing mothers are provided with a room in the Tai Po office to express milk in privacy.

Talent Training and Development

The Group abides by the "People-Oriented Principle" in respect of its staff and customers. With regards to the former, the Group promotes lifelong learning, as highlighted by its self-developed "Star Journey" programme which covers various hard and soft skills, including customer service, professional herbalist training, communication practices, work-life balance training, emotion management and outdoor training; extending beyond the Group's orientation programme. The modules offered are designed to enhance staff members' brand awareness and improve the quality and efficiency of their work. In 2015, a total of 316 hours was dedicated to staff training, consisting of 252 training courses. A total of 1,181 colleagues from all levels of the Group participated in the courses, including frontline, back office and production staff.

As is the Group's tradition, the back office staff are asked to participate in "Moments of Truth", an occasion where they assist in retail operations and experience firsthand the retail business during the Lunar New Year. Knowledge development is also the objective behind the "Hung's Conference", which was organised in June and December 2015 respectively. During the two events, different divisions shared the latest updates, herbal knowledge and offered insights to frontline and back office staff.



Staff Training



Hung's Conference

CORPORATE SOCIAL RESPONSIBILITY



Equality

The Group is an equal opportunity employer that believes in hiring, retaining and developing 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

The Group is actively involved in the community. During the past year, the Group sought to have a positive influence on society through the following efforts:

“Look for Joy” online charity campaign

Fully aware of the strong impact that social media has on society, the Group invited Mr. Alfred Hui, its brand ambassador to visit two families that have remained optimistic despite their personal challenges. The visits were filmed and made into videos that were uploaded to social media platforms, with one of the videos attracting over 800,000 views. The campaign is consistent with the Group’s vision, which is to promote a healthy and positive lifestyle. Funds were raised towards helping Families of SMA (Spinal Muscular Atrophy) Charitable Trust and Stewards for each video shared.

Support of charitable works through sponsorships

As is the Group’s tradition of helping society through a variety of channels, it has continued to align with NGOs, schools and associations — over 120 in 2015. Aside from in-kind product donations and coupon sponsorships, the Group has also supported fund-raising initiatives by facilitating donation box placement and distribution of promotional leaflets in more than 100 retail shops across Hong Kong.

The Group has remained an avid supporter and participant in The Community Chest of Hong Kong Skip Lunch Day, having been involved in the campaign for the past six years by providing tens of thousands of food coupons each year. This year, the associated effort, entitled “Services for Street Sleepers and Residents in Cage Homes” went on to raise more than HK\$1.6 million.

Yet another effort that the Group is proud to be associated with is the “Home for Dinner” programme organised by Oxfam Hong Kong, during which the Group donated soup coupons to support the organisation’s work on combating poverty and hunger.



‘Moment of Truth’



‘Look for Joy’ Online Charity Campaign

CORPORATE SOCIAL RESPONSIBILITY



Voluntary Work Participation



Oxfam Trailwalker 2015

Staff participation

The Group fully encourages its staff to follow in its footsteps and contribute to society. In support of this corporate culture, a number of employees took part in The Standard Chartered Hong Kong Marathon, AXA Hong Kong Streetathon, Convoy Totem Run and Oxfam Trailwalker.

Since the Group is also a sponsor of Oxfam Trailwalker 2015, it opened a booth at one of the checkpoints, and distributed siu mai and soup to the participants. The Group also arranged staff volunteers to visit elderly homes as part of a cooperative effort with Asbury Methodist Social Service.

ENVIRONMENTAL FRIENDLY INITIATIVES

Food waste recycling

Since December 2015, the Group has been offering food waste from its plants, including eggshells and ingredients used in soups, to a recycling company on a daily basis. The waste is subsequently turned into animal feed. This latest effort aligns with the Group's objective of promoting a sustainable future for Hong Kong.

Surplus food donation

A number of Hung Fook Tong retail shops have continued to provide surplus food to People Service Centre and Tin Shui Wai Community Development Network, both of which subsequently distribute the food to the less fortunate. The Group has also offered festive food and bulk donations to several food banks, including Food Angel, Feeding Hong Kong and Food Grace during the year.

Recycling of tortoise herbal jelly containers

As a further means of encouraging the recycling of tortoise herbal jelly containers, the Group continued to offer bonus points to JIKA Club members for each container that they clean and return to its retail shops.

CORPORATE SOCIAL RESPONSIBILITY



Surplus Food Donation



ISO 22000 Accreditation



Energy-saving and green measures

To promote a green culture at the workplace, the Group provides collection bins for paper reuse or recycling. In addition, a new machine has been installed, which is used to compress plastic bottles and aluminium cans for recycling. Still other efforts aimed at raising environmental consciousness include reminding all staff to turn off air conditioners, lights and other office equipment when not in use.

In respect of the Group's retail shops, some outlets have begun using LED lighting to reduce energy consumption. Also, an increasing number of fridges are being equipped with sliding doors or plastic curtains to minimise energy wastage.

OPERATING PRACTICES

Customer satisfaction

In order to continuously enhance customers' experiences with Hung Fook Tong products, the Group leverages the strong customer base of JIKA Club to conduct quarterly surveys on its seasonal products. A focus group, which is organised on a yearly basis, also enables the Group to examine the loyalty of its customers.

Support fair trade in the procurement process

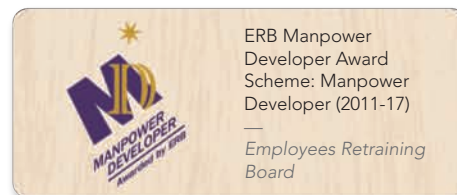
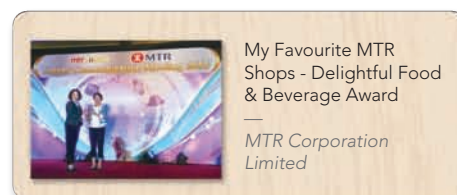
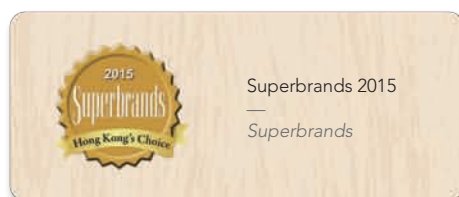
The Group has partnered with a raw materials supplier that is accredited with observing fair trade practices by the World Fair Trade Organization. The link up is aimed at encouraging better trading conditions and promoting sustainability among the Group's business partners.

Stringent quality control and safety assurance systems

The Tai Po production facility obtained ISO 22000 accreditation in the first quarter of 2016. In earning the stringent food safety management system certification, the Group has again demonstrated its ability to identify and control food safety hazards, and that the management and production system in place is fully compliant with internationally recognised standards.

AWARDS AND RECOGNITIONS

From the outset, the Group has sought to be a responsible corporate citizen, promoting staff development, open communications with all stakeholders and advancement of society. The Group's efforts in these and other areas have consequently received the praise of those inside and outside the industry. Among the awards received over the past year include the following:



DIRECTORS AND SENIOR MANAGEMENT



EXECUTIVE DIRECTORS

Mr. TSE Po Tat, aged 62, is the chairman (the “Chairman”) and an executive Director of our Company and currently a director of many 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 29 years of experience in commerce and the herbal drinks industry. 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 deputy president of the Hong Kong Federation of Restaurants and Related Trades, and a member of Group 8: Food, Beverages and Tobacco under the Federation of Hong Kong Industries. In addition, he serves as an elected member of General Committee and a member of Promotion and Advocacy Committee, both of which operate under Hong Kong Brand Development Council. He is the brother of Mr. Tse Po Shing who retired as a non-executive director of the Company on 19 June 2015.

Mr. KWAN Wang Yung, aged 61, is the managing Director and an executive Director of our Company, the chairman of Strategy and Development Committee and a member of Nomination Committee. Mr. Kwan currently serves as a director of many subsidiaries of the Company. Mr. Kwan is one of our founders and oversees overall management, production and quality control. He is also responsible for setting and implementing our business strategy, and accounting and finance. He has over 29 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 54, is the general manager and an executive Director of our Company, and a member of both Nomination Committee and Strategy and Development Committee. Dr. Szeto currently serves as a director of many 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 between August 1987 and August 1992 at Ka Wah Bank Limited. Dr. Szeto is a member of the Community Investment and Inclusion Fund Community 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 also obtained a Doctor of Philosophy in Education Administration from the University of Southern Mississippi in May 1995.

Ms. WONG Pui Chu, aged 56, is an executive Director of our Company, and a member of both Remuneration Committee and Strategy and Development Committee. Ms. Wong currently serves as a director of many 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 29 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.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KIU Wai Ming, aged 67, was appointed as an independent non-executive Director on 11 June 2014. In addition, he is also the chairman of Nomination Committee, as well as a member of both Audit Committee and Remuneration Committee. Mr. Kiu has extensive experience in retail, banking and finance. He served as an executive director and the chief executive officer of China Smarter Energy Group Holdings Limited (formerly known as "Rising Development Holdings Limited"), a company listed on The Stock Exchange of Hong Kong Limited (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 60, was appointed as an independent non-executive Director on 11 June 2014. In addition, he is the chairman of Remuneration Committee, and a member of both Audit Committee and Nomination Committee. 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 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 51, was appointed as an independent non-executive Director on 11 June 2014. In addition, he is the chairman of Audit Committee and a member of Nomination Committee. 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 (stock code: 822), Man Sang Jewellery Holdings Limited (stock code: 1466), TCL Communication Technology Holdings Limited (stock code: 2618), CITIC Resources Holdings Limited (stock code: 1205) and Union Medical Healthcare Limited (stock code: 2138), all of which are companies listed on the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT



SENIOR MANAGEMENT

Ms. Tull Shuk Ching, aged 53, 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 Gialletti Gelato and Foods (China) Ltd. and Wellco Enterprises Ltd. from October 1995 to March 1997 and October 1993 to October 1995, respectively. Ms. Tull obtained a Bachelor of Law from Peking University in July 2001 through a part-time programme jointly run by Peking University and Hong Kong Shue Yan College and a Bachelor of Arts from the National Cheungchi University in June 1983. She obtained a postgraduate certificate in business administration from The 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 45, 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 23 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 Lucillus 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. Lo Chi Wang, aged 38, is the financial controller of the Group. Mr. Lo joined the Group in May 2015. He is primarily responsible for the overall financial operations of the Group, including formulating financial strategies and plans, compiling budgets and periodic financial reporting, treasury management and investor relations. Mr. Lo has over 13 years of experience in accounting and finance field. He has nearly eight years of experience in auditing and tax advisory services, which was gained from positions in one of the international firms of certified public accountants, from 2002 to 2009. Prior to joining our Group in May 2015, he worked as the financial controller at Hanyu China Holdings Limited, a leading real estate agent in Shanghai, from 2009 to October 2013. He was a financial controller at Sino Grandness Food Industry Group Limited, a company listed on the Singapore Stock Exchange (stock code: T4B), from November 2013 to February 2015.

Mr. Lo received a Bachelor of Arts (Honors) in accounting from Manchester Metropolitan University in Manchester, United Kingdom in June 2001. He is a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee Bang Lau, aged 58, 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 29 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 39, 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 36, is a senior manager of our Group and responsible for its management as well as coordination of the logistics, and procurement and maintenance departments. Mr. Chan joined the Group in November 2004. 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 39, is a senior manager of our Group and responsible for human resource management and people development. She also undertakes administration and customer service. Ms. Tsang has over 17 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.

DIRECTORS AND SENIOR MANAGEMENT



Mr. Leung Tat Wing, aged 51, is a senior manager of the Group and responsible for facilitating and coordinating all matters involving finance and accounting, treasury, trademark, legal and compliance. He has over 20 years of experience in finance and accounting field. Prior to joining our Group in June 1999, he worked in other organizations in the commercial field as an assistant accountant from November 1995 to March 1999; a finance officer between October 1994 and June 1995 and an audit manager from May 1990 to October 1994.

Mr. Sun Man Lung, aged 40, is the manager of our Group and responsible for customer relationship management and institutional sales. Mr. Sun has over 18 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 Maxis 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 Longwin 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.

Ms. Chan Sui Lan Ellen, aged 43, serves as both deputy manager of the Group and secretary to the general manager and executive director of the Group. She is responsible for promoting and coordinating businesses involved in production, research and development, procurement, and quality control, and logistics since she rejoined the Group in March 2015. She possesses over 18 years of work experience in corporate administration, coordination, sales, and business development. Prior to joining the Group again, Ms. Chan served as personal assistant to general manager and executive director of the Group from September 2005 to August 2007. During September 2001 and August 2005, she was the deputy manager in charge of all sales and business development for the Development Department for Bottled Beverages. Prior to joining the Group for the first time in 2001, she was a customer service manager for China Citic Bank International Limited during 1990 and 2001.

Mr. Lau Siu Ki, aged 57, is the company secretary of the Group and was appointed in May 2015. He has over 10 years of experience in the corporate secretarial field providing professional corporate services to Hong Kong listed companies. He is currently the company secretary of Yeebo (International Holdings) Limited (stock code: 259), which is a company listed on the Stock Exchange. Mr. Lau is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

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 Company and its subsidiaries for the year ended 31 December 2015.

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 herbal tortoise plastron jelly under the 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 2015 is set out in Note 5 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the Group's business and the analysis of the Group's performance for the year ended 31 December 2015 as well as outlook/prospects of the Group's business are provided in the sections "Chairman's Statement" on pages 4 and 5 and "Management Discussion & Analysis" on pages 6 to 15 of this Annual Report.

Principal risks and uncertainties

There are a number of factors affecting the results and business operations of the Group, some of which are inherent in the market and some are due to external environment. Major risks and uncertainties are summarized as follows:

- Volatility of economic climate in Mainland China and Hong Kong, which is closely related to consumption sentiments thereto.

In order to mitigate the impact of a weakening Mainland China economy, the Group is continuing to expand the wholesale business in Taiwan and overseas. The Group continues to take a cautious approach in steering the Group forward, and recognizes the need to sustain retail sales momentum.

- Intense competition and weak retail momentum in Mainland China and Hong Kong

In order to satisfy the high-end customers in Mainland China in their favour for unique and healthy drinks, the Group plans to launch more flavours that have better margins to cope with the changing consumer preference and hence enhance the competitiveness.

Particulars of important events

No important events affecting the Group have occurred since the end of the financial year under review.

Financial Key Performance Indicators

Certain financial key performance indicators which complement and supplement the financial disclosures are set out in the "Consolidated Financial Statements" and "Financial Overview" on pages 47 to 116 and 11 to 13, respectively, of this Annual Report.

Environmental policies and performance, and compliance with relevant laws and regulations

The Group takes its corporate social responsibility to heart, and is fully committed to making a difference for its staff, the community and the common good. During the year under review, there are a wide range of activities and campaigns held to treasure the staff, community and the environment. The details are set out in "Corporate Social Responsibility" on pages 16 to 19 of this Annual Report.

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and Mainland China while the Company itself was incorporated in the Cayman Islands and is listed on the Stock Exchange. During the year ended 31 December 2015 and up to the date of this Directors' Report, the Group has complied with all relevant laws and regulations in the above-mentioned jurisdictions.

DIRECTORS' REPORT



Relationships with its key stakeholders including employees, customers and suppliers

Employees

Recognising that human resources are one of the greatest assets of the Group, the Group provides a variety of benefits, talent trainings and development for employees.

Customers

It is the Group's mission to satisfy different customers' needs and continues to contribute to the wellbeing of the public by preserving and sharing traditional Chinese herbal culture, as well as promoting modern wellness concepts.

In addition, the Group treasures its JIKA Club members and various promotions and discounts have been offered to them during the year.

Key suppliers

The Group has developed long-standing relationships with a number of suppliers and taken great care to ensure that they share our belief in good quality and ethics.

As we strive to produce healthy, nutritious and delicious products with quality natural ingredients and without addition of any artificial preservatives, artificial colouring or Monosodium glutamate ("MSG"), we make effort in the selection of raw materials from suppliers and pay attention as to whether any artificial additives are added to such raw materials. The Group prudently select suppliers and requires all of them to comply with our social and environmental responsibility guidelines.

Details of the above are set out in "Chairman's Statement", "Management Discussion & Analysis", "Corporate Social Responsibility" and "Corporate Governance Report" on pages 4 and 5, 6 to 15, 16 to 19 and 37 to 44, respectively, of this Annual Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of comprehensive income on page 47 of this Annual Report.

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2015.

A final dividend in respect of the year ended 31 December 2015 of HK0.40 cent per ordinary share has been proposed by the Board. In addition, to reward the continuous support of our shareholders during the challenging period of the Group, the Board also proposed a special dividend of HK0.36 cent per ordinary share. The proposed final and special dividends amounted to a total of HK\$4,985,000 with dividend payout ratio of 0.57 have to be approved by shareholders in the forthcoming annual general meeting ("AGM") to be held on 3 June 2016. These proposed dividends are not reflected as dividend payable in the consolidated statement of financial position, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in Note 36 to the consolidated financial statements and the consolidated statement of changes in equity on page 50 of this Annual Report.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution to shareholders amounted to approximately HK\$216.1 million comprising share premium of approximately HK\$215.0 million, other reserves of approximately HK\$108.0 million and after setting off accumulated losses of HK\$106.9 million.

Under the Companies Law of the Cayman Islands, subject to the provisions of Articles of Association of the Company, 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.

DIRECTORS' REPORT

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM of the Company to be held on Friday, 3 June 2016, the register of members of the Company will be closed from Wednesday, 1 June 2016 to Friday, 3 June 2016, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 31 May 2016.

For determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 10 June 2016 to Tuesday, 14 June 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final and special dividends as stated, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Branch Share Registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 8 June 2016.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets, equity and liabilities of the Group for the last five financial years is set out on page 116 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of the movements in property, plant and equipment and investment property 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 2015, certain assets of the Group have been pledged to secure bank borrowing facilities, details of which and particulars of all bank borrowings, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2015 are set out in Note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the 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 purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

DONATIONS

Charitable donations made by the Group during the year ended 31 December 2015 amounted to HK\$120,000.

DIRECTORS' REPORT



MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the aggregate sales attributable to the Group's five largest customers were less than 30.0%. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30.0%.

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

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

DIRECTORS

The Directors as at the date of this Report are as follows:

Executive Directors:

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

Independent Non-Executive Directors:

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

During the year ended 31 December 2015, Mr. Tse Po Shing, a Non-executive Director, retired at 2015 AGM held on 19 June 2015 and did not offer himself for re-election.

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. 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") stipulates that each Director should be subject to retirement by rotation at least once every three years.

Ms. Wong Pui Chu, Dr. Szeto Wing Fu and Mr. Kiu Wai Ming shall retire by rotation at the forthcoming AGM and, being eligible, offer themselves 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 21 to 25 of this Annual Report.

DIRECTORS' 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.

The three 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.

PERMITTED INDEMNITY PROVISION

Subject to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), every Director is entitled under the Company's Articles of Association to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he or she may sustain or incur in or about the execution or discharge of his or her duties. To the extent permitted by such Ordinance, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of companies in the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, 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") and the "Code of Conduct for Securities Transactions by Directors of the Company" adopted by the Company 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	411,846,600 (Long position)	62.79
Mr. Tse Po Tat (Notes 1 & 3)	Interests held jointly with other persons; Interest in a controlled corporation	411,846,600 (Long position)	62.79
Mr. Kwan Wang Yung (Notes 1 & 4)	Interests held jointly with other persons; Interest in a controlled corporation	411,846,600 (Long position)	62.79
Dr. Szeto Wing Fu (Note 5)	Interest in a controlled corporation	24,704,600 (Long position)	3.77

DIRECTORS' REPORT



Notes:

- (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 30.74% (being 201,638,200 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 18.16% (being 119,122,400 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 13.89% (being 91,086,000 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) The Company was directly owned as to 3.77% (being 24,704,600 Shares) by Aolong Limited ("Aolong"). By virtue of his 100% shareholding of Aolong, Dr. Szeto Wing Fu is deemed to be interested in the same number of Shares held by Aolong.

Save as disclosed above, as at 31 December 2015, 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, 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	411,846,600 (Long position)	62.79
YITAO (Note 2)	Interests held jointly with other persons; Beneficial interest	411,846,600 (Long position)	62.79
Ms. Chan Suk Hing Comita (Note 3)	Interest of spouse	411,846,600 (Long position)	62.79
Prestigious Time (Note 4)	Interests held jointly with other persons; Beneficial interest	411,846,600 (Long position)	62.79
Mrs. Kwan Chan Lai Lai (Note 5)	Interest of spouse	411,846,600 (Long position)	62.79

Notes:

- (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.

Save as disclosed above, as at 31 December 2015, 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' REPORT



DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Annual Report, at no time during the year ended 31 December 2015 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 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 (i.e. will expire on 11 June 2023). 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 31 December 2015, no option had been granted, exercised, cancelled or lapsed under the Share Option Scheme. A total of 63,200,000 Shares are available for issue under the Share Option Scheme, representing approximately 9.63% of the total issued capital of the Company as at 31 December 2015.

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.

DIRECTORS' REPORT

PRE-IPO SHARE OPTION SCHEME

On 11 June 2014, the Company adopted a pre-IPO share option scheme (the "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 eligible employees, including executives and officers of the Group at nil consideration and at exercise price of HK\$1.00 per Share. As at 31 December 2015, the maximum number of Shares which may be issued upon exercise of all outstanding options granted under the Pre-IPO Share Option Scheme is 10,528,000 Shares, representing approximately 1.60% of the Company's issued share capital as at 31 December 2015. No pre-IPO share option has been granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2015.

Details of the outstanding share options under the Pre-IPO Share Option Scheme during the year as follows:

Name of Grantee	At 1 January 2015	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2015	Date of Grant	Exercisable Period	Exercise Price (HK\$)
Chan Hiu Cheuk (Note 2)	450,000	–	–	–	450,000	16.06.2014	04.01.2015–04.07.2017	1.00
Tse Kei Tai (Note 3)	20,000	–	–	–	20,000	16.06.2014	04.01.2015–04.07.2017	1.00
	470,000				470,000			
Other employees	12,166,000	(244,000)	–	(1,864,000)	10,058,000	16.06.2014	04.01.2015–04.07.2017	1.00
Total	12,636,000				10,528,000			

Notes:

- (1) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$1.07.
- (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.

Further details of the share options are set out in Notes 2.21, 4(g) and 24 to the consolidated financial statements.

DIRECTORS'/CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which any Director or Controlling Shareholders (or any of its subsidiaries) of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2015 or at any time during the year then ended.

DIRECTORS' REPORT



DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2015, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

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 Directors are set out in Note 9 to the consolidated financial statements.

CHANGES IN INFORMATION OF DIRECTORS

The changes in information of Directors are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

- Mr. Andrew Look, an Independent Non-executive Director of the Company has the following appointments:
 - as an independent non-executive director of CITIC Resources Holdings Limited (stock code: 1205) with effect from 1 September 2015; and a member of the audit committee and the remuneration committee with effect from 4 December 2015.
 - as an independent non-executive director, as well as the Chairman of audit committee and a member of the nomination committee and the remuneration committee of Union Medical Healthcare Limited (stock code: 2138) with effect from 19 February 2016.
- Mr. Tse Po Tat, an Executive Director, has been appointed as the vice-chairman of the Hong Kong Federation of Restaurants and Related Trades, previously he was a committee member of the same.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors as at the date of this Annual Report, the Company has maintained a sufficient public float as required under the Listing Rules.

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 during the year ended 31 December 2015.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 37 to 44 of this Annual Report.

DIRECTORS' REPORT

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. The net proceeds from the Listing have been utilized as follows:

	As Set Out in the Prospectus HK\$'million	Amount Actually Used up to 31 December 2015 HK\$'million	Unutilised amount as at 31 December 2015 HK\$'million
Opening of new retail shops in Hong Kong and Mainland China	101.2	45.9	55.3
Promotion and marketing	33.5	22.3	11.2
Improving information system	5.4	3.4	2.0
Recruitment of new staff	12.3	12.3	–
Expansion of distribution network for wholesale in Mainland China	9.9	1.7	8.2
Repayment of bank borrowings	19.6	19.6	–

Due to a slow down in the economy in both Mainland China and Hong Kong, the Group has adopted a more conservative approach in its business strategy. Accordingly, management has adjusted the timing of the use of proceeds in area like "Opening of new retail shops in Hong Kong and Mainland China", "Promotion and marketing" and "Expansion of distribution network for wholesale in Mainland China" to a longer period.

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 3 June 2016 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 31 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 has complied with disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2015.

By order of the Board

Tse Po Tat
Chairman

Hong Kong, 24 March 2016

CORPORATE GOVERNANCE REPORT



CORPORATE GOVERNANCE PRACTICES

The Board 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 Corporate Governance Code ("CG Code") under the Listing Rules. The corporate governance principles of the Company emphasise a quality board, sound internal controls and risk management, and transparency and accountability to all the shareholders.

In the opinion of the Directors, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2015.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "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 obtain approval from the Managing Director. If the Managing Director declares an intention of dealing in the Company's shares, he must first obtain 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 Code of Conduct and the Model Code throughout the year ended 31 December 2015.

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. Directors take decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

CORPORATE GOVERNANCE REPORT

Chairman and chief executive officer

The Chairman of the Company is Mr. Tse Po Tat. The Company does not have a chief executive officer ("CEO"), but the Managing Director, Mr. Kwan Wang Yung, performs a role comparable to that of CEO. The Chairman provides leadership and is responsible for effective functioning and leadership of the Board, while the Managing Director focuses on the Company's business development and daily management and operations generally.

There is a clear division of responsibilities in ensuring that there is a balance of power and authority.

Board members

As at the date of this Annual Report, the Board comprises seven members, made up of four executive Directors and three independent non-executive Directors. The current Board members are as follows:

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. KIU Wai Ming	Independent Non-executive Director
Professor SIN Yat Ming	Independent Non-executive Director
Mr. Andrew LOOK	Independent Non-executive Director

During the year ended 31 December 2015, Mr. Tse Po Shing, a non-executive Director retired at the 2015 AGM held on 19 June 2015, and did not offer himself for re-election.

Detailed biographies of the Directors are shown on pages 21 to 22 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.

Board Diversity

The Company has an official written policy relating to the diversity of Board members, which aims to set out the approach to achieve diversity on the Board. Under this policy, the diversity of the Board is considered in terms of factors such as gender, age, cultural and educational background, professional experience, skills, knowledge and experience. 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. Regulating this Board diversity policy is the responsibility of the nomination committee of the Company.

Independent non-executive Directors

The Company 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 services 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 of them has signed a declaration confirming independence.

Throughout the year under review, the Board at all times fulfilled 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.

CORPORATE GOVERNANCE REPORT



Directors' induction and continuous professional development

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on appointment to ensure appropriate understanding of the business and governance policies and operations of the Group and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. This understanding is deepened and continued by the Directors' participation in Board meetings and their work on various committees.

During the year ended 31 December 2015, all Directors received regular briefings and updates on the Group's business, operations, internal controls, corporate governance matters and relevant laws and regulations. Relevant reading materials were provided to the Directors. They also attended courses and seminars organised by external professional bodies on topics relevant to the duties and responsibilities of a director. All Directors have provided the Company with their respective training records pursuant to the CG Code.

Board meetings and attendance

The Company holds at least four Board meetings per year, with special Board meetings being scheduled as required to determine the overall strategic directions and objectives of the Group and approve interim and annual results and other significant matters. 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.

The Directors' attendance at board meetings and general meetings of the Company during the year ended 31 December 2015 are listed below:

Name of Directors	Board Meetings		General Meeting	
	Number of meetings held during the Director's tenure of office	Number of meetings attended	Number of meetings held during the Director's tenure of office	Number of meetings attended
Tse Po Tat	5	4	1	1
Kwan Wang Yung	5	5	1	1
Wong Pui Chu	5	3	1	0
Szeto Wing Fu	5	5	1	1
Tse Po Shing (retired on 19 June 2015)	2	0	1	0
Kiu Wai Ming	5	5	1	1
Sin Yat Ming	5	5	1	1
Look Andrew	5	5	1	1

Apart from the regular Board meetings, the Chairman also held a meeting with all independent non-executive Directors on 19 June 2015 without the presence of executive Directors.

CORPORATE GOVERNANCE REPORT

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 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.

Audit Committee

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.

The role of the audit committee is to make recommendations to the Board on the appointment or removal of the external auditor; review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process; review the Company's financial statements; provide the Board with material advice in respect of financial reporting; to oversee the Company's financial reporting system, risk management and internal control systems; and oversee the Company's corporate governance functions including reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements.

The audit committee shall meet at least twice a year, and the external auditors may request a meeting if they consider that one is necessary. The secretary of the Audit Committee shall be the company secretary of the Company or his appointed delegate. During the year under review, the committee held three meetings, which were attended by all of its members. At the meetings, the audit committee had performed the followings:

- reviewed the audited annual financial statements for the year ended 31 December 2014;
- reviewed the unaudited interim financial statements for the six months ended 30 June 2015;
- made recommendations to the Board for approval the above-mentioned financial statements respectively;
- reviewed and approved the internal audit plan; reviewed and approved the audit service memorandum presented by the external auditor;
- discussed with the management and the external auditors on the issues concerning accounting policies and practices which may affect the Group, along with financial reporting matters;
- reviewed the system of internal control and risk management;
- determined the interim review and annual audit fees of the external auditors; and
- recommended to the Board the amendments to the terms of reference of the Audit Committee pursuant to the amendments to the Listing Rules in relation to the duties of the Board to oversee the effectiveness of risk management functions of the Group.

Apart from the regular audit committee meetings, the committee also held a meeting with external auditors without the presence of the management on 26 March 2015.

CORPORATE GOVERNANCE REPORT



Remuneration Committee

The remuneration committee consists of three members, two of whom are independent non-executive Directors, namely Professor Sin Yat Ming (Chairman) and Mr. Kiu Wai Ming; and the other member is an executive Director, Ms. Wong Pui Chu.

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 the periodic 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.

The remuneration committee shall meet at least once a year and at such other times as its Chairman shall require. During the year under review, the remuneration committee held one meeting, which was attended by all of its members. At the meeting, the remuneration committee has reviewed the remuneration policy of executive directors; assessing performance of executive directors; and discussed and recommended the remuneration packages of the executive 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	7
HK\$1,000,001 to HK\$1,500,000	2

The details of the fees and other emoluments paid or payable to the Directors are set out in details in Note 37 to the consolidated financial statements.

Nomination Committee

The nomination committee consists of five members, three of whom are independent non-executive Directors, namely Mr. Kiu Wai Ming (Chairman), Professor Sin Yat Ming and Mr. Andrew Look; and the other two members are Executive Directors, namely Mr. Kwan Wang Yung and Dr. Szeto Wing Fu.

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 is obligated to:

- annually review the structure, size and composition (including its mix of skills, knowledge and experience) and diversity (including but not limited to gender, age, cultural, educational background, professional and industry experience, skills, knowledge and experience) of the Board;
- make recommendations on proposed changes to the Board to complement the Company's corporate strategy;
- make recommendations to the Board on the appointment or re-appointment of Directors;
- assess the independence of independent non-executive Directors; and
- oversee the implementation of the Company's written policy to ensure diversity of Directors.

CORPORATE GOVERNANCE REPORT

The nomination committee shall meet at least once a year and at such other times as its Chairman shall require. During the year under review, the nomination committee held one meeting, which was attended by all of its members. At the meeting, the nomination committee has reviewed policy, procedures and criteria adopted for the nomination of directors, 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, composition and diversity (including but not limited to gender, age, cultural, educational background, professional and industry experience, skills, knowledge and experience) of the Board.

Strategy and Development Committee

The strategy and development committee consists of three members, all of them are Executive Directors, namely Mr. Kwan Wang Yung (chairman), Ms. Wong Pui Chu and Dr. Szeto Wing Fu.

The role of the strategy and development committee is to analyse market trends and help to formulate the Company's business strategies and plans from time to time, and make appropriate recommendations to the Board.

During the year under review, the strategy and development committee held three meetings and all members attended the 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.

Corporate Governance Functions

The Board is responsible for reviewing the Company's corporate governance policies and practices, ensuring adequate and proper training and continuous professional development of Directors and senior management, reviewing the Company's policies and practices on compliance with legal and regulatory requirements, the Code of Conduct, Model Code and CG Code and ensuring the proper disclosure in this Corporate Governance Report.

Internal Controls and Risk Management

The Board is responsible for maintaining an adequate internal control and risk management 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.

CORPORATE GOVERNANCE REPORT



The Board reviewed the effectiveness of the Group's risk management and internal control systems at its Board meeting on 24 March 2016, including its financial, operational and compliance controls for the year ended 31 December 2015 and it is considered effective and adequate. 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 2015 and interim review for the six months ended 30 June 2015 amounted to HK\$2.6 million.

The remuneration paid or payable to PricewaterhouseCoopers in respect of other permissible non-audit services amounted to HK\$0.2 million.

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 45 to 46 of this Annual Report.

Company Secretary

Mr. Tsang Kai Ming has resigned as company secretary and financial controller of the Company due to personal reason with effect from 13 May 2015. Mr. Lau Siu Ki of Hin Yan Consultants Limited, an external service provider, has been appointed as the company secretary to fill the vacancy on 13 May 2015. The primary contact person within the Company whom Mr. Lau can contact for all matters relating to the duties and responsibilities of the company secretary is Dr. Szeto Wing Fu, General Manager and Executive Director.

During the year under review, Mr. Lau has taken no less than 15 hours of relevant professional training to update his skills and knowledge.

Investor Relations and Shareholders' Rights

The Company is committed to maximizing transparency for shareholders and investors, and ensuring that shareholders and investors have clear knowledge of decisions made by the Company. During the year under review, the Company organized various investor relations programs (including briefing meetings with existing and potential institutional investors, media and analysts) aiming at increasing the transparency of the Company, enhancing communication with shareholders and investors, increasing their understanding and confidence of the Group's business and promoting market recognition of and support to the Company. Moreover, the annual shareholders' meetings and other shareholders' meetings of the Company are also forum for communication by the Company with its shareholders, and for shareholder participation. The Company encourages and supports shareholders' 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.

CORPORATE GOVERNANCE REPORT

Convening an Extraordinary General Meeting 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 and Putting forward enquiries to the Board

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 preceding 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 address is as follows or directly by raising questions at the general meetings of the Company.

Address: Hung Fook Tong Group Holdings Limited
11 Dai King Street
Tai Po Industrial Estate
Tai Po, New Territories
Hong Kong
(For the attention to Directors' office)

Telephone: (852) 3651 2000

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Articles of Association

During the year ended 31 December 2015, the Company has not made any amendment to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUNG FOOK TONG GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Hung Fook Tong Group Holdings Limited (the "Company") and its subsidiaries set out on pages 47 to 115, which comprise the consolidated statement of financial position as at 31 December 2015, 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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
Revenue	5,6	723,578	722,072
Cost of sales	8	(284,651)	(298,092)
Gross profit		438,927	423,980
Other income	7	1,566	1,064
Other (losses)/gains, net	7	(2,359)	869
Selling and distribution costs	8	(70,670)	(73,076)
Administrative expenses	8	(354,755)	(382,459)
Operating profit/(loss)		12,709	(29,622)
Finance income	10	342	1,032
Finance costs	10	(2,416)	(5,429)
Finance costs, net	10	(2,074)	(4,397)
Profit/(loss) before income tax		10,635	(34,019)
Income tax expense	11	(1,304)	(4,641)
Profit/(loss) for the year		9,331	(38,660)
Profit/(loss) attributable to:			
Owners of the Company		8,707	(38,345)
Non-controlling interests		624	(315)
		9,331	(38,660)
Other comprehensive loss:			
<i>Items that may be reclassified to profit or loss</i>			
— Currency translation differences		(2,402)	(1,105)
— Release of exchange reserve upon disposal of a subsidiary		—	(338)
Other comprehensive loss, net of tax		(2,402)	(1,443)
Total comprehensive income/(loss) for the year		6,929	(40,103)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		6,899	(39,759)
Non-controlling interests		30	(344)
		6,929	(40,103)
Earnings/(loss) per share attributable to owners of the Company			
— Basic and diluted (HK cents per share)	12	1.33	(6.82)

The notes on pages 52 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

		As at 31 December	
		2015	2014
	Note	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Leasehold land	15	31,965	32,987
Property, plant and equipment	15	242,102	252,057
Investment property	16	800	829
Prepayments and deposits	20	19,764	29,683
Deferred income tax assets	25	4,290	3,905
		298,921	319,461
Current assets			
Inventories	17	30,102	36,688
Trade receivables	19	64,320	55,068
Prepayments, deposits and other receivables	20	29,458	24,620
Amounts due from related companies	31	822	1,033
Tax recoverable		4,084	6,600
Pledged bank deposits	21	15,007	24,326
Bank deposits with original maturity over 3 months	21	4,097	10,030
Cash and cash equivalents	21	127,410	87,685
		275,300	246,050
Total assets		574,221	565,511
Equity			
Equity attributable to owners of the Company			
Share capital	22	6,559	6,557
Share premium	22	214,999	214,650
Reserves	23	34,427	28,066
		255,985	249,273
Non-controlling interests		2,821	4,310
Total equity		258,806	253,583

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

		As at 31 December	
		2015	2014
	Note	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs	28	4,027	4,837
Deferred income tax liabilities	25	326	342
Bank borrowings	30	37,722	13,645
Obligation under finance leases		797	1,890
		42,872	20,714
Current liabilities			
Trade and bill payables	26	28,925	28,505
Accruals and other payables	27	65,776	86,822
Provision for reinstatement costs	28	2,233	2,339
Receipts in advance	29	122,743	116,252
Bank borrowings	30	47,861	51,651
Obligation under finance leases		1,093	1,048
Taxation payable		3,912	4,597
		272,543	291,214
Total liabilities		315,415	311,928
Total equity and liabilities		574,221	565,511
Net current assets/(liabilities)		2,757	(45,164)
Total assets less current liabilities		301,678	274,297

The notes on pages 52 to 115 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 47 to 115 were approved by the Board of Directors on 24 March 2016 and were signed on its behalf.

Tse Po Tat
Director

Kwan Wang Yung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to owners of the Company						Non-controlling interests HK\$'000	Total equity HK\$'000
	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	
For the year ended								
31 December 2014								
Balance at 1 January 2014	–	–	8,123	–	3,243	90,931	102,297	105,001
Comprehensive loss								
Loss for the year	–	–	–	–	–	(38,345)	(38,345)	(38,660)
Other comprehensive loss								
Currency translation differences	–	–	–	–	(1,076)	–	(1,076)	(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)	(40,103)
Transaction with owners								
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	188,685
Balance at 31 December 2014	6,557	214,650	8,123	5,528	1,829	12,586	249,273	253,583
For the year ended								
31 December 2015								
Balance at 1 January 2015	6,557	214,650	8,123	5,528	1,829	12,586	249,273	253,583
Comprehensive income								
Profit for the year	–	–	–	–	–	8,707	8,707	9,331
Other comprehensive loss								
Currency translation differences	–	–	–	–	(1,808)	–	(1,808)	(2,402)
Total comprehensive income for the year	–	–	–	–	(1,808)	8,707	6,899	6,929
Transaction with owners								
Issue of shares upon exercise of share options	2	349	–	(107)	–	–	244	244
Changes in ownership interests in a subsidiary without change in control (Note 35)	–	–	–	–	–	(431)	(431)	(1,950)
	2	349	–	(107)	–	(431)	(187)	(1,706)
Balance at 31 December 2015	6,559	214,999	8,123	5,421	21	20,862	255,985	258,806

The notes on pages 52 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015



	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
Cash flows from operating activities			
Cash generated from operations	32(a)	48,941	26,449
Income tax refund/(paid)		126	(10,762)
Net cash generated from operating activities		49,067	15,687
Cash flows from investing activities			
Purchase of property, plant and equipment		(38,412)	(85,396)
Proceeds from disposal of property, plant and equipment	32(b)	77	1,514
Reinstatement costs paid for shop and office premises	28	(1,276)	(781)
Repayment from/(advance to) related companies		211	(32,012)
Decrease/(increase) in pledged bank deposits		9,319	(988)
Decrease/(increase) in bank deposit with original maturity over 3 months		5,933	(2,295)
Interest received		342	1,032
Acquisition of properties, net of cash and cash equivalents acquired		–	(531)
Net cash used in investing activities		(23,806)	(119,457)
Cash flows from financing activities			
Proceeds from bank borrowings		110,000	134,730
Repayment of bank borrowings		(89,669)	(209,627)
Repayment of obligation under finance leases		(1,048)	(1,040)
Proceeds from obligation under finance leases		–	590
Proceeds from issuance of ordinary shares		–	236,220
Share issuance costs		–	(15,013)
Dividend paid		–	(14,660)
Interest paid		(2,416)	(5,429)
Proceeds from exercise of share options		244	–
Consideration (paid to)/received from non-controlling interests		(1,950)	1,950
Net cash generated from financing activities		15,161	127,721
Net increase in cash and cash equivalents		40,422	23,951
Effect of currency translation difference		(653)	(1,041)
Cash and cash equivalents at beginning of year		87,641	64,731
Cash and cash equivalents at end of year	21(c)	127,410	87,641

The notes on pages 52 to 115 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together the “Group”) are principally engaged in the retail, wholesale and distribution of bottled drinks, other herbal products, soups 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 24 March 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable 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 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 following amendments and interpretations to existing standards and annual improvements have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

HKAS 19 (2011) (Amendment)	Defined Benefit plans: Employee Contributions
Annual Improvements Project 2012	Annual Improvements 2010–2012 Cycle
Annual Improvements Project 2013	Annual Improvements 2011–2013 Cycle

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The following new standards, amendments to standards and annual improvements relevant to the Group have been issued but are not yet effective for the financial year beginning 1 January 2015 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Annual Improvements Project 2014	Annual Improvements 2012–2014 Cycle	1 January 2016
HKAS 1 (Amendment)	Disclosure Initiative	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 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception	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 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Lease	1 January 2019

The Group will adopt the above new standards, amendments and interpretations to existing standards and annual improvements 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.

In addition, the requirement of Part 9 “Account and Audit” of the new Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 (losses)/gains, net' in the consolidated 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 property

Investment property, principally comprising leasehold land and building, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes property that is being constructed or developed for future use as investment property. Investment property comprises land and building held under finance lease.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.11 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of financial assets (Continued)

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.

2.14 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 the expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, upon initial recognition, have been included as leasehold improvement in the consolidated statement of financial position (see Note 2.5).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out by the finance department under the supervision of the board of directors. The board provides principles for overall risk management.

(a) Market risk

(i) Foreign exchange risk

The Group operates mainly in Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions and recognised financial assets and liabilities.

As at 31 December 2015, 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\$3,625,000 higher/lower (loss for the year for the year ended 31 December 2014: HK\$1,960,000 lower/higher), 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 30. The cash deposits placed with banks generate interest at the prevailing market interest rates.

As at 31 December 2015, 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\$248,000 higher/lower (loss for the year for the year ended 31 December 2014: HK\$15,000 lower/higher), respectively, mainly attributable to the Group's exposure to interest rates on its variable rate bank balances and bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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 with low credit risk.

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 2015, top 5 customers of the Group accounted for approximately 54% (2014: 60%), 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Specifically, for bank borrowings containing 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 2015				
Trade and bill payables	28,925	–	–	28,925
Accruals and other payables	63,959	–	–	63,959
Bank borrowings	49,259	17,537	21,501	88,297
Obligation under finance leases	1,151	812	–	1,963
	<u>143,294</u>	<u>18,349</u>	<u>21,501</u>	<u>183,144</u>
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
	<u>168,662</u>	<u>6,775</u>	<u>9,715</u>	<u>185,152</u>

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 2015				
Bank borrowings	49,259	17,537	21,501	88,297
Obligation under finance leases	1,151	812	–	1,963
	<u>50,410</u>	<u>18,349</u>	<u>21,501</u>	<u>90,260</u>
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
	<u>41,737</u>	<u>16,789</u>	<u>12,578</u>	<u>71,104</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

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.

The gearing ratios at 31 December 2015 and 2014 were as follows:

	2015 HK\$'000	2014 HK\$'000
Bank borrowings (Note 30)	85,583	65,296
Obligation under finance leases	1,890	2,938
Less: Pledged bank deposits, bank deposits with original maturity over 3 months and cash and cash equivalents (Note 21)	(146,514)	(122,041)
Net cash	(59,041)	(53,807)
Total equity	258,806	253,583
Total capital	199,765	199,776
Gearing ratio	N/A	N/A

3.3 Fair value estimation

The carrying values of the Group's financial assets, including trade receivables, deposits and other receivables, amounts due from related companies, pledged bank deposits, bank deposits with original maturity over 3 months and cash and cash equivalents, and financial liabilities, including trade and bill payables, other payables, bank borrowings and obligation under finance leases, approximate their fair values due to their short maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives, residual values and depreciation charges of property, plant and equipment

Management determines the estimated useful lives, residual values and depreciation charges for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each statement of financial position date.

(d) Provision for impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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 (1) Hong Kong Retail; (2) PRC Retail and (3) Wholesale.

Segment assets consist primarily of leasehold land, property, plant and equipment, investment property, inventories, trade receivables, prepayments, deposits and other receivables, pledged bank deposits, bank deposits with original maturity over 3 months, and cash and cash equivalents. They exclude amounts due from related companies, tax recoverable, deferred income tax assets and assets used for corporate functions.

Capital expenditure comprises additions to leasehold land and property, plant and equipment and additions from acquisition of properties for the years ended 31 December 2015 and 2014.

Geographically, management considers the retail, wholesale, distribution of bottled drinks, other herbal products, soups 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. Information relating to segment liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

Unallocated corporate expenses, finance income and costs and income tax expense are not included in segment results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

The segment information provided to the executive directors for the years ended 31 December 2015 and 2014 is as follows:

	Year ended 31 December 2015			
	Hong Kong Retail HK\$'000	PRC Retail HK\$'000	Wholesale HK\$'000	Total HK\$'000
Segment revenue	483,175	16,161	237,682	737,018
Less: Inter-segment revenue	(7,521)	–	(5,919)	(13,440)
Revenue from external customers	475,654	16,161	231,763	723,578
Segment results	60,057	(9,594)	6,042	56,505
Corporate expenses				(43,796)
Finance costs, net				(2,074)
Profit before income tax				10,635
Income tax expense				(1,304)
Profit for the year				9,331
Other segment items:				
Capital expenditure	17,297	1,398	7,819	26,514
Depreciation and amortisation	25,054	2,266	6,926	34,246
Interest income	182	5	155	342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2015 and 2014 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 2015					
Segment assets	370,621	10,475	174,580	(3,453)	552,223
Amounts due from related companies					822
Tax recoverable					4,084
Deferred income tax assets					4,290
Corporate assets					<u>12,802</u>
Total assets					<u>574,221</u>
As at 31 December 2014					
Segment assets	354,335	21,578	171,998	(4,183)	543,728
Amounts due from related companies					1,033
Tax recoverable					6,600
Deferred income tax assets					3,905
Corporate assets					<u>10,245</u>
Total assets					<u>565,511</u>

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 2015, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2014: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

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	
	2015	2014
	HK\$'000	HK\$'000
Hong Kong	602,865	592,717
The PRC	103,641	111,564
Overseas countries	17,072	17,791
	723,578	722,072

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2015 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	
	2015	2014
	HK\$'000	HK\$'000
Hong Kong	439,346	432,579
The PRC	112,877	111,149
	552,223	543,728

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

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Hong Kong	245,399	251,070
The PRC	30,816	27,782
	276,215	278,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 REVENUE

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

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Sale of goods	706,872	704,695
Service income	–	17
Revenue recognised upon expiry of pre-paid coupons and cards	16,706	17,360
	723,578	722,072

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

Other income

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Rental income	292	264
Franchise income	62	85
Special rebate from utility company	560	–
Others	652	715
	1,566	1,064

Other (losses)/gains, net

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Exchange difference	(1,065)	(43)
Losses on disposal of property, plant and equipment	(1,448)	(1,446)
Release of payables for logistic services upon settlement with the counterparty	–	2,053
Others	154	305
	(2,359)	869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 EXPENSES BY NATURE

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
Cost of inventories sold		212,123	239,447
Operating lease rental in respect of retail outlets			
— Minimum rental		93,704	86,429
— Contingent rental		386	1,140
Operating lease rental in respect of storage spaces and office premises		19,917	17,836
Advertising and promotional expenditure		26,825	33,575
Amortisation of leasehold land	15(a)	1,022	713
Depreciation of property, plant and equipment	15(b)	33,195	24,120
Depreciation of investment property	16	29	29
Communication and utilities		35,721	30,229
Employee benefit expenses (including directors' emoluments)	9	215,459	214,011
Provision for obsolete inventory	17	47	386
Reversal of provision for impairment of trade receivables	19	(4)	(12)
Legal and professional fees		5,800	5,807
Auditors' remuneration			
— Audit services		2,600	2,480
— Non-audit services		178	217
Tools, repair and maintenance expenses		10,338	10,033
Transportation and distribution expenses		28,620	34,348
Listing-related expenses		—	18,590
Others		24,116	34,249
Total cost of sales, selling and distribution costs and administrative expenses		710,076	753,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Wages, salaries and bonuses	194,389	186,562
Medical and other employee benefits	10,986	12,235
Retirement benefit costs — defined contribution plans	10,084	9,686
Share based compensation expenses	—	5,528
	215,459	214,011

(a) Five highest paid individuals

For the year ended 31 December 2015, the five individuals whose emoluments were the highest in the Group include four directors (2014: three directors), whose emoluments are reflected in the analysis shown in Note 37. The emoluments paid/payable to the remaining individual (2014: two individuals) are as follows:

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Wages, salaries and bonuses and benefits in kind	882	1,800
Bonuses	143	140
Retirement benefit costs — defined contribution plans	18	34
Share based compensation expenses	—	700
	1,043	2,674

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:

Emolument band	Number of individuals	
	2015	2014
Nil to HK\$1,000,000	—	—
HK\$1,000,001 to HK\$5,000,000	1	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 FINANCE COSTS, NET

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Finance income:		
— Interest income	342	1,032
Finance costs:		
— Interest expenses on borrowings	(2,313)	(5,221)
— Interest expenses on finance leases	(103)	(208)
	(2,416)	(5,429)
Finance costs, net	(2,074)	(4,397)

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 2015 (2014: 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% (2014: 25%).

The amount of income tax expense represents:

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Current tax:		
Hong Kong profits tax on profits for the year	126	430
PRC EIT on profits for the year	1,479	3,378
Under/(over)-provision in prior years	100	(8)
Deferred income tax (Note 25)	(401)	841
Income tax expense	1,304	4,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX EXPENSE (Continued)

The tax on the Group's profit/(loss) 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	
	2015	2014
	HK\$'000	HK\$'000
Profit/(loss) before income tax	10,635	(34,019)
Tax calculated at 16.5%	1,755	(5,613)
Effect of different tax rates applicable to subsidiaries in the respective locations	140	3,386
Income not subject to tax	(30)	(97)
Expenses not deductible for tax purposes	648	1,912
Utilisation of previously unrecognised tax loss and tax loss not recognised, net	(1,309)	5,061
Over-provision of income tax expense in prior years	100	(8)
Income tax expense	1,304	4,641

12 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	Year ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
Profit/(loss) attributable to owners of the Company	8,707	(38,345)
Weighted average number of ordinary shares for the calculation of basic earnings/(loss) per share (thousands)	655,858	562,415
Earnings/(loss) per share attributable to owners of the Company		
— Basic earnings/(loss) per share (HK cents)	1.33	(6.82)
— Diluted earnings/(loss) per share (HK cent)	N/A	N/A

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 EARNINGS/(LOSS) PER SHARE (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. 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 earnings/(loss) per share for the year ended 31 December 2015 and 2014 equal basic earnings/(loss) per share as the exercise of the outstanding share options would be anti-dilutive.

(c) Adjusted

During the year ended 31 December 2014, 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 earnings/(loss) per share based on earnings/(loss) attributable to owners of the Company excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme.

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Profit/(loss) attributable to owners of the Company	8,707	(38,345)
Adjustments for:		
Listing-related expenses	–	18,590
Share based compensation expenses in relation to pre-IPO share options scheme	–	5,528
Adjusted profit/(loss) attributable to owners of the Company excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme	8,707	(14,227)
Adjusted basic earnings/(loss) per share excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme (HK cents)	1.33	(2.53)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 DIVIDENDS

	2015 HK\$'000	2014 HK\$'000
Dividends attributable to the year		
Interim dividend paid	–	40,000
Proposed final dividend of HK0.40 cent per ordinary share	2,624	–
Proposed special dividend of HK0.36 cent per ordinary share	2,361	–
	4,985	40,000
Dividends paid during the year	–	40,000

A final dividend and a special dividend in respect of the year ended 31 December 2015 of HK0.40 cents and HK0.36 cent, respectively, per ordinary share, amounting to a total dividend of HK\$4,985,000 with dividend payout ratio of 0.57 was proposed by the Board of Directors which have to be approved by shareholders in the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the consolidated statement of financial position, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

14 SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company:

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Number of issued share/ issued and paid up/ registered capital	Effective interest held as at 2015	2014
Directly held by the Company						
Hung Fook Tong Group Limited	British Virgin Islands, 17 January 2014	Investment holding	Limited liability company	1 ordinary share	100%	100%
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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/establishment	Principal activities	Type of legal status	Number of issued share/ issued and paid up/ registered capital	Effective interest held as at	
					2015	2014
Indirectly held by the Company (Continued)						
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 Online Limited (Formerly Known as Hung Fook Tong Franchisor Consultancy Limited, name changed on 4 November 2015)	Hong Kong, 20 April 1993	E-commerce	Limited liability company	HK\$2	100%	100%
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	RMB6,300,000	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\$8,000,000	51%	51%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Number of issued share/ issued and paid up/ registered capital	Effective interest held as at	
					2015	2014
Indirectly held by the Company (Continued)						
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%
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 ("Taclon")	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%	100%
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	RMB7,623,811	100%	100%
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%	100%
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	100%	70%
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	100%	70%

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.

Non-controlling interests

The total non-controlling interest as at 31 December 2015 is HK\$2,821,000 (2014: HK\$4,310,000) of which HK\$2,821,000 (2014: HK\$2,516,000) related to Goldmark Plastic Bottle Manufacturing Limited, which the directors consider not material to the Group.

The remaining of HK\$1,519,000 non-controlling interest as at 31 December 2014 related to Gold Medal Development Limited, which the Group has acquired the 30% equity interest during the year ended 31 December 2015, hence nil balance as at 31 December 2015 (Note 35).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	2015 HK\$'000	2014 HK\$'000
At 1 January	32,987	–
Acquisition of properties	–	33,700
Amortisation (Note 8)	(1,022)	(713)
At 31 December	31,965	32,987

Amortisation of leasehold land of HK\$1,022,000 for the year ended 31 December 2015 (2014: HK\$713,000) 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 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 properties	95,150	51	488	237	–	–	35,857	131,783
Disposals (Note 32(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Property, plant and equipment (Continued)

	Buildings	Leasehold improvements	Furniture and fixtures	Plant and machinery	Motor vehicles	Office and computer equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2015								
Opening net book amount	134,717	34,329	6,094	63,945	588	7,473	4,911	252,057
Additions	20	10,083	1,559	12,112	248	2,408	84	26,514
Disposals (Note 32(b))	-	(421)	(68)	(938)	-	(98)	-	(1,525)
Transfer	-	-	-	4,995	-	-	(4,995)	-
Depreciation (Note 8)	(4,351)	(13,009)	(830)	(12,052)	(257)	(2,696)	-	(33,195)
Exchange difference	(17)	(60)	(4)	(1,574)	(6)	(88)	(-)	(1,749)
Closing net book amount	130,369	30,922	6,751	66,488	573	6,999	(-)	242,102
At 31 December 2015								
Cost	136,325	88,351	13,688	126,334	1,223	18,048	(-)	383,969
Accumulated depreciation and impairment	(5,956)	(57,429)	(6,937)	(59,846)	(650)	(11,049)	-	(141,867)
Net book amount	130,369	30,922	6,751	66,488	573	6,999	(-)	242,102

Depreciation of HK\$8,005,000 (2014: HK\$3,927,000) has been charged in 'cost of sales', HK\$24,901,000 (2014: HK\$19,901,000) in 'administrative expenses' and HK\$289,000 (2014: HK\$292,000) in 'selling and distribution costs'.

The net carrying amount of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery and motor vehicle were HK\$3,887,000 as at 31 December 2015 (2014: HK\$4,541,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INVESTMENT PROPERTY

	2015 HK\$'000	2014 HK\$'000
At 1 January		
Cost	2,000	2,000
Accumulated depreciation	(1,171)	(1,142)
Net book amount	829	858
Year ended 31 December		
Opening net book amount	829	858
Depreciation (Note 8)	(29)	(29)
Closing net book amount	800	829
At 31 December		
Cost	2,000	2,000
Accumulated depreciation	(1,200)	(1,171)
Net book amount	800	829

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

The 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 property is assessed by taking comparable properties as a guide to current market prices. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. As determined by management, the fair value amounted to approximately HK\$7,039,000 as at 31 December 2015 (2014: HK\$6,849,000). The most significant input into this valuation approach is price per square foot.

Depreciation of HK\$29,000 (2014: HK\$29,000) have been charged in 'administrative expenses' for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INVENTORIES

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Raw materials	12,966	18,555
Work in process	5,404	8,788
Finished goods	12,658	10,224
	31,028	37,567
Less: Provision for obsolete inventories	(926)	(879)
	30,102	36,688

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

	2015	2014
	HK\$'000	HK\$'000
At 1 January	879	493
Provision for obsolete inventories (Note 8)	47	386
At 31 December	926	879

18 FINANCIAL INSTRUMENTS BY CATEGORIES

	Note	As at 31 December	
		2015	2014
		HK\$'000	HK\$'000
Assets as per consolidated statement of financial position			
Loans and receivables			
— Trade receivables	19	64,320	55,068
— Deposits and other receivables	20	42,938	43,662
— Amounts due from related companies	31	822	1,033
— Pledged bank deposits	21	15,007	24,326
— Bank deposits with original maturity over 3 months	21	4,097	10,030
— Cash and cash equivalents	21	127,410	87,685
Liabilities as per consolidated statement of financial position			
Other financial liabilities subsequently measured at amortised cost			
— Trade and bill payables	26	28,925	28,505
— Accruals and other payables (excluding non-financial liabilities)	27	63,959	85,243
— Bank borrowings	30	85,583	65,296
— Obligation under finance leases		1,890	2,938

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE RECEIVABLES

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Trade receivables	66,048	56,800
Less: Provision for impairment of trade receivables	(1,728)	(1,732)
	64,320	55,068

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 31 December 2015 and 2014, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Less than 30 days	28,514	22,154
31-90 days	23,561	24,033
Over 90 days	12,245	8,881
	64,320	55,068

As at 31 December 2015, trade receivables of HK\$28,096,000 (2014: HK\$19,111,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default 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:

	2015	2014
	HK\$'000	HK\$'000
Overdue		
Less than 30 days	12,970	14,796
31-90 days	10,681	3,767
Over 90 days	4,445	548
	28,096	19,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE RECEIVABLES (Continued)

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

	As at 31 December	
	2015 HK\$'000	2014 HK\$'000
HK\$	49,609	44,184
RMB	14,711	10,884
	64,320	55,068

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	1,732	1,744
Reversal of provision for impairment of trade receivables (Note 8)	(4)	(12)
At 31 December	1,728	1,732

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Non-current portion		
Prepayments for property, plant and equipment	802	5,909
Rental deposits and other deposits	18,962	23,774
Total	19,764	29,683
Current portion		
Prepayments	5,482	4,732
Rental deposits and other deposits	13,119	9,790
Value-added tax recoverable	10,037	8,698
Other receivables	820	1,400
Total	29,458	24,620

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

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
HK\$	28,368	31,359
RMB	14,570	12,303
	42,938	43,662

21 PLEDGED BANK DEPOSITS, BANK DEPOSITS WITH ORIGINAL MATURITY OVER 3 MONTHS AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Pledged bank deposits (Note (a))	15,007	24,326
Bank deposit with original maturity over 3 months	4,097	10,030
Cash and cash equivalents	127,410	87,685
Total	146,514	122,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Notes:

- (a) The pledged bank deposits are held in designated bank accounts mainly for the Group's banking facilities (Note 30).
- (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	
	2015	2014
	HK\$'000	HK\$'000
HK\$	116,580	98,371
USD	302	94
RMB	29,626	23,558
Others	6	18
	146,514	122,041

- (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	
	2015	2014
	HK\$'000	HK\$'000
Cash and cash equivalents in the consolidated statement of financial position	127,410	87,685
Less: Bank overdrafts	—	(44)
Cash and cash equivalents in the consolidated statement of cash flows	127,410	87,641

Significant restrictions

Cash and cash equivalents and pledged deposits of HK\$27,423,000 (2014: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Nominal value of Ordinary shares HK\$
Authorised:		
At 10 January 2014 (date of incorporation)	10,000	10,000
Increase in authorised share capital and subdivision of shares	<u>999,990,000</u>	<u>9,990,000</u>
At 31 December 2014 and 31 December 2015	<u>1,000,000,000</u>	<u>10,000,000</u>

	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	<u>9,999</u>	<u>9,999</u>	–
Subdivision of shares	<u>990,000</u>	–	–
Shares issued pursuant to the Capitalisation Issue	<u>473,000,000</u>	<u>4,730,000</u>	<u>(4,730,000)</u>
Shares issued pursuant to the Global Offering	<u>181,700,000</u>	<u>1,817,000</u>	<u>234,393,000</u>
Share issuance costs	<u>–</u>	<u>–</u>	<u>(15,013,179)</u>
At 31 December 2014 and 1 January 2015	<u>655,700,000</u>	<u>6,557,000</u>	<u>214,649,821</u>
Pre-IPO Share Option Scheme			
— Exercise of share options (Note 24)	<u>244,000</u>	<u>2,440</u>	<u>348,314</u>
At 31 December 2015	<u>655,944,000</u>	<u>6,559,440</u>	<u>214,998,135</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 RESERVES

(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.

(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 2015, retained earnings comprised statutory reserves fund amounting to HK\$1,203,000 (2014: HK\$765,000).

24 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 SHARE BASED PAYMENTS (Continued)

Pursuant to the Schemes, the Board may, at its discretion, grant share options to any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or confiscation 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:

	2015		2014	
	Average exercise price in HK\$ per share	Number of shares under options (in thousands)	Average exercise price in HK\$ per share	Number of shares under options (in thousands)
At 1 January	1.0	12,636	–	–
Granted	1.0	–	–	12,636
Exercised	1.0	(244)	–	–
Cancelled	1.0	–	–	–
Lapsed	1.0	(1,864)	–	–
At 31 December		10,528		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 outstanding share options under the Pre-IPO Share Option Scheme have the following expiry date and exercise price:

Expiry date	Exercise price per share HK\$	Share options	
		2015 (In thousands)	2014 (In thousands)
4 July 2017	1.0	–	2,108
4 July 2017	1.0	10,528	10,528
		10,528	12,636

The significant inputs into the Binomial Option valuation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 SHARE BASED PAYMENTS (Continued)

Options exercised during the year ended 31 December 2015 resulted in the issuance of 244,000 shares (Year ended 31 December 2014: Nil), with exercise proceeds of HK\$244,000 (Year ended 31 December 2014: Nil).

During the year ended 31 December 2015, 1,864,000 share options were lapsed as a result of the cessation of employment of certain employees.

25 DEFERRED INCOME TAX

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

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Deferred income tax assets		
— to be recovered after more than 12 months	14,378	12,689
— to be recovered within 12 months	61	61
	14,439	12,750
Deferred income tax liabilities		
— to be recovered after more than 12 months	10,475	9,187

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	
	2015	2014
	HK\$'000	HK\$'000
Deferred income tax assets — net	4,290	3,905
Deferred income tax liabilities — net	326	342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 DEFERRED INCOME TAX (Continued)

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

	HK\$'000
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
At 1 January 2015	3,563
Credited to the consolidated statement of profit or loss (Note 11)	401
At 31 December 2015	3,964

The gross movement in deferred income tax assets and liabilities during the financial 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 2014	4,615	77	4,692
Acquisition of 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
At 1 January 2015	3,830	8,920	12,750
Credited to consolidated statement of profit or loss	385	1,304	1,689
At 31 December 2015	4,215	10,224	14,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities

	Accelerated tax depreciation and others HK\$'000
At 1 January 2014	(286)
Acquisition of properties	(4,343)
Charged to consolidated statement of profit or loss	(4,558)
At 31 December 2014	(9,187)
At 1 January 2015	(9,187)
Charged to consolidated statement of profit or loss	(1,288)
At 31 December 2015	(10,475)

Deferred income tax assets are recognised for tax losses carry forward purposes only to the extent that realisation of the related tax benefits through future taxable profit is probable.

The Group did not recognise deferred income tax assets of HK\$28,880,000 (2014: HK\$28,895,000) as at 31 December 2015 in respect of tax losses in Hong Kong and in the PRC.

The Group has unrecognised tax losses of HK\$132,792,000 (2014: HK\$148,261,000) as at 31 December 2015, to carry forward against future profit in Hong Kong. These tax losses afore-mentioned are subject to final approval by the Inland Revenue Department in Hong Kong and can be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities (Continued)

The Group has unrecognised tax losses of HK\$27,873,000 (2014: HK\$17,727,000) as at 31 December 2015, to carry forward against future profit in the PRC. These tax losses expire in the following years:

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Expiry in year:		
2018	2,938	2,938
2019	14,789	14,789
2020	10,146	–
2021	–	–
2022	–	–
	27,873	17,727

As at 31 December 2015 management is of the view that undistributed earnings of certain subsidiaries in the PRC totalling HK\$10,429,000 (2014: HK\$9,618,000), are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of HK\$521,000 (2014: HK\$481,000) have not been recognised as at 31 December 2015, 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.

26 TRADE AND BILL PAYABLES

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Trade payables	28,925	26,677
Bill payables	–	1,828
	28,925	28,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 TRADE AND BILL PAYABLES (Continued)

As at 31 December 2015, the ageing analysis of the trade and bill payables, based on invoice date, is as follows:

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
0 to 30 days	13,169	19,398
31 to 60 days	13,239	7,430
61 to 90 days	2,498	1,211
Over 90 days	19	466
	28,925	28,505

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

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
HK\$	15,642	10,777
RMB	13,283	17,728
	28,925	28,505

27 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Accruals for employee benefit expenses	25,860	26,133
Accruals for marketing and promotional expenses	1,697	3,833
Accruals for sales rebate	1,100	1,054
Rental and other store expenses payable	11,559	12,622
Office and utilities expenses payable	2,774	3,359
Deferred revenue	717	525
Consideration payable for property, plant and equipment acquired	5,041	22,046
Other accruals and other payables	17,028	17,250
	65,776	86,822

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 ACCRUALS AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
HK\$	53,489	74,325
RMB	12,287	12,497
	65,776	86,822

28 PROVISION FOR REINSTATEMENT COSTS

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Non-current		
Provision for reinstatements costs	4,027	4,837
Current		
Provision for reinstatements costs	2,233	2,339
	6,260	7,176

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

	2015	2014
	HK\$'000	HK\$'000
At 1 January	7,176	5,270
Additional provision during the year	360	2,687
Utilisation	(1,276)	(781)
At 31 December	6,260	7,176

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 RECEIPTS IN ADVANCE

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Receipts in advance	122,743	116,252

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

	Note	2015 HK\$'000	2014 HK\$'000
At 1 January		116,252	105,521
Receipts from sales of pre-paid coupons and credits during the year		273,873	273,373
Revenue recognised upon the redemption of products by customers	a	(250,793)	(245,239)
Revenue recognised upon expiry of pre-paid coupons and credits	b	(16,705)	(17,360)
Exchange differences		116	(43)
At 31 December		122,743	116,252

Note:

- (a) The amounts represent revenue recognised in consolidated statement of comprehensive income as a result of redemption of products by customers during the year.
- (b) The amounts represent revenue recognised in consolidated statement of comprehensive income for pre-paid coupons and credits expired in accordance with the contractual periods stipulated in the respective terms and conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 BANK BORROWINGS

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Bank overdrafts (Note 21)	–	44
Bank loans:		
Portion due for repayment within 1 year	47,861	39,670
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	37,722	13,645
	85,583	65,296

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	
	2015	2014
	HK\$'000	HK\$'000
Bank loans:		
Within 1 year	47,861	39,713
Between 1 and 2 years	16,914	15,883
Between 2 and 5 years	20,808	9,700
	85,583	65,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 BANK BORROWINGS (Continued)

As at 31 December 2015 and 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) A legal charge on the leasehold land and building with net carrying amount of HK\$31,965,000 (2014: HK\$32,987,000) and HK\$129,503,000 (2014: HK\$134,400,000) respectively;
- (d) Plant and machinery and motor vehicles with net carrying amount of HK\$3,558,000 (2014: HK\$4,104,000) and HK\$330,000 (2014: HK\$437,000) respectively;
- (e) Pledge of investment property as at 31 December 2014 (Note 16).

The carrying amounts of bank borrowings approximate their fair values.

The weighted average interest rate is 4% as at 31 December 2015 (2014: 3.6%).

The carrying amounts of the Group's bank borrowings are denominated in Hong Kong dollars.

31 RELATED PARTIES BALANCES AND TRANSACTIONS

The Company is controlled by Think Expert Investments Limited, Prestigious Time Limited and YITAO Investments Limited (all incorporated in the British Virgin Islands), which collectively owns 62.79% of the Company's shares as at 31 December 2015. The remaining 37.21% 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 Pui Chu, Mr. Kwan Wang Yung and Mr. Tse Po Tat, 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.

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
- AC Alliance Investment Limited (formerly known as Hung Fook Tong Industrial Co. Limited)
- Aqua Pure Distilled Water Company Limited
- A.P. Logistics Co., Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 RELATED PARTIES BALANCES AND TRANSACTIONS (Continued)

Amounts due from/(to) related companies

The amounts due from/(to) the related companies are unsecured, interest-free and repayable on demand.

The Group had the following material trade and non-trade balances due from related party:

		As at 31 December	
		2015	2014
		HK\$'000	HK\$'000
(a)	Balance included in current portion		
	— Non-trade		
	— Aqua Pure Distilled Water Company Limited	822	1,033

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

Related parties transactions

(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	
		2015	2014
		HK\$'000	HK\$'000
	Rental expenses paid for office premises		
	— Action Rich Investment Limited	(405)	(540)
	Purchase of bottled water		
	— Aqua Pure Distilled Water Company Limited	(456)	(506)
	Production services income		
	— Aqua Pure Distilled Water Company Limited	100	454

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 RELATED PARTIES BALANCES AND TRANSACTIONS (Continued)

Related parties transactions (Continued)

(a) Transactions with related parties (Continued)

(ii) Non-continuing transactions

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Interest income received — AC Alliance Investment Limited	—	642
Logistic services expenses — A.P. Logistics Co., Limited	—	(230)

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	
	2015 HK\$'000	2014 HK\$'000
Fees	1,105	812
Salaries, allowances and benefits in kind	12,668	11,762
Pension costs	219	211
Share based compensation expenses	—	1,759
	13,992	14,544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
Profit/(loss) before income tax		10,635	(34,019)
Adjustments for:			
Interest income		(342)	(1,032)
Interest paid		2,416	5,429
Losses on disposal of property, plant and equipment	32(b)	1,448	1,446
Share based payments		–	5,528
Amortisation of leasehold land	15(a)	1,022	713
Depreciation of property, plant and equipment	15(b)	33,195	24,120
Depreciation of investment property	16	29	29
Provision of reinstatement costs	28	360	2,687
Provision of obsolete inventories	17	47	386
Reversal of provision of impairment of trade receivables	19	(4)	(12)
		48,806	5,275
Changes in working capital:			
Decrease/(increase) in inventories		6,539	(7,699)
(Increase)/decrease increase in trade receivables		(9,248)	11,358
Increase in prepayments, deposits and other receivables		(26)	(3,143)
Increase/(decrease) in trade and bill payables		420	(6,358)
Increase in accruals and other payables and receipts in advance		2,450	27,016
Cash generated from operations		48,941	26,449

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Disposal of property, plant and equipment

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
Property, plant and equipment			
Net book value	15(b)	1,525	2,960
Losses on disposal of property, plant and equipment	7	(1,448)	(1,446)
Proceeds from disposal of property, plant and equipment		77	1,514

(c) Non-cash transactions

For the year ended 31 December 2015

No significant/material non-cash transactions have been incurred during the year.

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's properties was settled against the amounts due from related parties.
- (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's properties.

33 CONTINGENT LIABILITIES

- (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 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 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	
	2015	2014
	HK\$'000	HK\$'000
Not later than 1 year	86,830	84,681
Later than 1 year and no later than 5 years	62,223	89,825
	149,053	174,506

The leases have varying terms and escalation clauses. The operating lease rentals of certain outlets are based on the higher of a minimum guaranteed rental or a sales-level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

(b) Capital commitments

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

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Contracted but not provided for Property, plant and equipment	1,576	1,553

35 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Acquisition of additional interest in a subsidiary

On 13 October 2015, the Company acquired 30% of the issued shares of Gold Medal Limited for a purchase consideration of HK\$1,950,000. The carrying amount of the non-controlling interests in Gold Medal Limited on the date of acquisition was HK\$1,519,000. The group recognised a decrease in non-controlling interests of HK\$1,519,000 and a decrease in equity attributable to owners of the company of HK\$431,000. The effect of changes in the ownership interest on the equity attributable to owners of the company during the year is summarised as follows:

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
Carrying amount of non-controlling interests acquired	1,519	–
Consideration paid to non-controlling interests	(1,950)	–
Excess of consideration paid recognised within equity	(431)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of Financial Position of the Company

	Note	As at 31 December 2015 HK\$'000	2014 HK\$'000
ASSETS			
Non-current assets			
Interests in subsidiaries		230,036	228,626
Current assets			
Prepayments, deposits and other receivables		454	367
Cash and cash equivalents		851	3,253
		1,305	3,620
Total assets		231,341	232,246
EQUITY			
Share capital		6,559	6,557
Share premium		214,999	214,650
Reserves	(a)	6,498	7,718
Total equity		228,056	228,925
LIABILITIES			
Current liabilities			
Accruals and other payables		3,285	3,321
		3,285	3,321
Total equity and liabilities		231,341	232,246

The statement of financial position of the Company was approved by the Board of Directors on 24 March 2016 and was signed on its behalf.

Tse Po Tat
Director

Kwan Wang Yung
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

Note

(a) Reserve movement of the 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 Hung Fook Tong Group Limited pursuant to the Reorganisation		107,992	—	—	107,992
Share based compensation expenses	24	—	5,528	—	5,528
Dividends	13	—	—	(40,000)	(40,000)
		<u>107,992</u>	<u>5,528</u>	<u>(40,000)</u>	<u>73,520</u>
At 31 December 2014 and 1 January 2015		<u>107,992</u>	<u>5,528</u>	<u>(105,802)</u>	<u>7,718</u>
Total comprehensive income					
Loss for the year		—	—	(1,113)	(1,113)
Transaction with owners					
Share based compensation expenses	24	—	(107)	—	(107)
		<u>—</u>	<u>(107)</u>	<u>—</u>	<u>(107)</u>
At 31 December 2015		<u>107,992</u>	<u>5,421</u>	<u>(106,915)</u>	<u>6,498</u>

The profit/(loss) attributable to the shareholders is dealt with in the financial statements of the Company to the extent of a loss of HK\$1,113,000 (2014: HK\$65,802,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of the Directors is set out below respectively:

For the year ended 31 December 2015

Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiaries undertaking:									
	Fees HK\$	Salary HK\$	Discretionary bonuses HK\$	Housing HK\$	Estimated Money value of other benefits HK\$	Employer's Contribution of a retirement benefit scheme HK\$	Remunerations paid or receivable in respect of accepting office as director HK\$	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$	Total HK\$
Executive Directors									
Ms. Wong Pui Chu	-	1,230	200	-	-	18	-	-	1,442
Mr. Tse Po Tat	-	1,194	194	-	-	18	-	-	1,400
Mr. Kwan Wang Yung	-	1,278	207	-	-	18	-	-	1,498
Dr. Szeto Wing Fu	-	1,358	221	-	-	18	-	-	1,590
	-	5,060	822	-	-	72	-	-	5,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2015

Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiaries undertaking:									
	Fees HK\$	Salary HK\$	Discretionary bonuses HK\$	Housing HK\$	Estimated Money value of other benefits HK\$	Employer's Contribution of a retirement benefit scheme HK\$	Remunerations paid or receivable in respect of accepting office as director HK\$	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$	Total HK\$
Non-executive Director									
Mr. Tse Po Shing	385	-	-	-	-	-	-	-	385
Independent non-executive Directors									
Mr. Kiu Wai Ming	240	-	-	-	-	-	-	-	240
Professor Sin Yat Ming	240	-	-	-	-	-	-	-	240
Mr. Andrew Look	240	-	-	-	-	-	-	-	240
	720	-	-	-	-	-	-	-	720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2014 (restated)

Certain of the comparative information of director emoluments for the year ended 31 December 2014 previously disclosed in accordance with the predecessor Companies Ordinance have been restated in order to comply with the new scope and requirement by the Hong Kong Company ordinance (Cap. 622).

Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiaries undertaking:								
							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Fees HK\$	Salary HK\$	Discretionary bonuses HK\$	Housing HK\$	Estimated Money value of other benefits HK\$	Employer's Contribution of a retirement benefit scheme HK\$	Remunerations paid or receivable in respect of accepting office as director HK\$	HK\$	HK\$
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2014 (restated) (Continued)

	Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiaries undertaking:							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fees HK\$	Salary HK\$	Discretionary bonuses HK\$	Housing HK\$	Estimated Money value of other benefits HK\$	Employer's Contribution of a retirement benefit scheme HK\$	Remunerations paid or receivable in respect of accepting office as director HK\$		
Non-executive Director									
Mr. Tse Po Shing	410	411	-	-	-	9	-	-	830
Independent non-executive Directors									
Mr. Kiu Wai Ming	134	-	-	-	-	-	-	-	134
Professor Sin Yat Ming	134	-	-	-	-	-	-	-	134
Mr. Andrew Look	134	-	-	-	-	-	-	-	134
	402	-	-	-	-	-	-	-	402

There was no arrangement during the year ended 31 December 2015 and 2014 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' termination benefits

None of the Directors received any termination benefits during the years ended 31 December 2015 and 2014.

(c) Consideration provided to third parties for making available directors' services

During the years ended 31 December 2015 and 2014, the Company did not pay consideration to any third parties for making available Directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and entities connected with such directors

As at 31 December 2015 and 2014, there are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such Directors.

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the 31 December 2015 and 2014 or at any time during the years ended 31 December 2015 and 2014.

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	723,578	722,072	645,049	578,693	479,298
Profit/(loss) before income tax	10,635	(34,019)	48,521	48,115	9,532
Income tax expense	(1,304)	(4,641)	(12,548)	(11,331)	(3,220)
Profit/(loss) for the year	9,331	(38,660)	35,973	36,784	6,312
Profit/(loss) attributable to:					
Owners/Equity holders of the Company	8,707	(38,345)	34,468	35,961	6,991
Non-controlling interests	624	(315)	1,505	823	(679)
	9,331	(38,600)	35,973	36,784	6,312

ASSETS AND LIABILITIES

	As at 31 December				
	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Assets					
Non-current assets	298,921	319,461	127,522	151,117	77,447
Current assets	275,300	246,050	308,656	206,501	189,369
Total assets	574,221	565,511	436,178	357,618	266,816
Equity and liabilities					
Total equity	258,806	253,583	105,001	68,056	30,857
Non-current liabilities	42,872	20,714	27,350	3,958	4,246
Current liabilities	272,543	291,214	303,827	285,604	231,713
Total liabilities	315,415	311,928	331,177	289,562	235,959
Total equity and liabilities	574,221	565,511	436,178	357,618	266,816

Note: 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 Company's prospectus dated 23 June 2014.



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

www.hungfooktong.com

