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

2017 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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
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

Conyers 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

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

Bank of China (Hong Kong) Limited
24th Floor
Bank of China Tower
1 Garden Road, Central
Hong Kong

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

COMPANY WEBSITE

www.hungfooktong.com

STOCK CODE

1446

HIGHLIGHTS OF THE YEAR 2017

FEB

Launched the Hung Fook Tong Food Truck

MAR

Supported "The Community Chest Skip Lunch Day" (公益行善「折」食日) for eight consecutive years

Opened new shops in the Central and Lam Tin MTR Stations respectively

APR

Commenced the construction of new production facilities in Kai Ping City, Guangdong Province

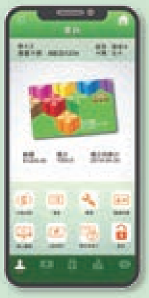
MAY

Launched Organic Chicken Essence Product (有機滴雞精)

MORE FRUITS AND VEGETABLES

JUL

Launched the newly packaged Sugarcane Juice Drink Series



Launched digital membership card via JIKA CLUB mobile application

AUG

自家CLUB
JIKA CLUB

The number of JIKA CLUB members exceeded 700,000

SEP

Launched Sparkling Salted Mandarin Drink (有氣咸柑桔)

OCT

Opened a pop-up store at PMQ (元創方) in Central, selling up-cycled herbal soap products

NOV

Sponsored food and beverages for Oxfam Trailwalker 2017 (樂施毅行者)

DEC

Opened the first ever herbal-themed Pompompurin (布甸狗) pop-up café in Hong Kong

Opened new shops at Queen Elizabeth Hospital and Chelsea Heights Plaza in Tuen Mun respectively

According to Nielsen, Hung Fook Tong was ranked the first in sales value and volume in the Wellness Drink Category for the 15th consecutive year

CHINESE WISDOM

Mr. Tse Po Tat
Chairman and Executive Director

To our shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I hereby 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 2017.

During the past year, the Hong Kong and Mainland China markets enjoyed a steady recovery on the back of improving economies on both sides of the border. In 2017, total retail sales value in Hong Kong achieved a year-on-year increase of 2.2% to HK$446.1 billion. This modest growth was in contrast to continual declines on an annual basis since 2014. In Mainland China, the picture was just as encouraging, with the economy expanding by 6.9% in 2017, thereby beating the government's own estimate and market expectations.

Given our well honed operations and highly recognised brand with over three decades of experience in the industry along with improving consumption sentiment, such advantages served well for the ongoing development of the Group during the year. In Hong Kong, our retail business was able to maintain steady growth through careful management of the retail network. This included our further penetration of the MTR rail lines, which helped the Group to reinforce its position as the largest herbal retailer in Hong Kong. Our products have remained central to the Group's development, and during the year, we introduced a number of products, including Organic Chicken Essence (有機滴雞精) that helped raise awareness of the Joyous Series (自家喜慶系列) among our target customers, primarily postnatal mothers and those seeking products with re-energising properties. Also helping to attract attention to the Group was our food truck. In operation since February 2017, the vehicle has served as an ideal platform for promoting our brand values while at the same time providing a supplemental source of income.

A particularly encouraging development during the financial year has been the turnaround of our wholesale business. In Hong Kong, our wholesale operation achieved significant growth while its Mainland China counterpart performed encouragingly as we began to reap the benefits of closer cooperation with key accounts, as well as by leveraging our own extensive distribution network. Also a contributor to the wholesale segment's growth was our Taiwan business which began to tap local demand.

In view of the favourable performance of the Group, I am pleased to report to our shareholders that the Board has resolved to recommend a final dividend of HK0.37 cent and a special dividend of HK0.31 cent per ordinary share respectively, totalling HK0.68 cent per ordinary share.

OUTLOOK

Going forward, the Hong Kong retail market looks set to achieve further progress, driven by a resurgent tourism industry and improving consumption sentiment. While such an outlook is encouraging, we will rather err on the side of caution as we follow our road map to growth. Backed by the success of existing products under the Joyous Series, more new products for this series will be introduced, such as food therapy that are targeted towards new mothers (坐月食療), and those seeking wholesome options for complementing their healthy lifestyle. The new products will thus enable us to extend our reach to the wellness market.

As we proceed with introducing a wider variety of products, including vegetarian choices and products with less sugar or lower sodium to meet the need of health-conscious members of the public, some of these products will eventually feature labels that support the "Salt/Sugar" Label Scheme for Prepackaged Food Products (預先包裝食品「鹽／糖」標籤計劃), which was introduced by the Hong Kong Government in October 2017.

Also to facilitate the growth of our retail operation will be the opening of new concept stores that will provide seating and made-to-order food. Such establishments reflect our clear understanding of customers' desire for healthy and convenient options. Yet another initiative that reflects this understanding is the rollout of Smart Vendors named "HUNG+" – machines that will possess artificial intelligence (AI) technology, hence will be capable of actively engaging customers by providing 24/7 basic health assessments and subsequently conducting product sales.

By no means discounting the importance of our wholesale operations, we remain confident in our ability to protect our leadership in the Hong Kong market, as well as make further inroads in Mainland China by capitalising on our renowned brand and wholesome products. Also, we are always seeking to expand our horizons, and will examine opportunities for establishing our presence in new markets where strong consumption power is evident. In view of prospects presented by the One Belt, One Road initiative, we will look at gaining footholds in such overseas markets as Thailand and Vietnam, which are among the countries that are set to benefit from the aforesaid economic development plan.

With regard to addressing the click-and-mortar retailing trend, we will pay close attention to the e-commerce market and are dedicated to developing our "Hung Fook Tong Online" platform so as to enhance customers' purchasing experiences while raising the Group's competitiveness in this new era of retailing.

As it is always our objective to continuously enhance all facets of operation, we will do just that. And in particular, we will maintain our relentless drive to control costs, which is among the most important areas of concern given its direct impact on the Group's profitability. Having made clear strides in controlling costs in 2017, we will seek to observe cost changes even more carefully in the coming year.

APPRECIATION

At this time I would like to extend my sincere gratitude to the management team and Hung Fook Tong workforce for their dedication and hard work during the past financial year. I wish to also express my appreciation to each and every business partner, shareholder and customer for placing their trust and lending support to the Group.

Tse Po Tat
Chairman and Executive Director
Hong Kong, 27 March 2018

Retail Business

115 shops in Hong Kong

over **730,000** members in Hong Kong

Hung Fook Tong Food Truck

Launched in February 2017

Hung Fook Tong Online

- Delivers omnichannel experiences
- Integrates with extensive JIKA CLUB membership
- **350**+ stock keeping units
- Recognised as **"Quality E-Shop"**

Wholesale Business

Market Leader in Hong Kong

- No. 1 in the Hong Kong Wellness Drink Category for the 15th consecutive year
- 2017 market share* (in sales value): 37.3%

* *Source: The Nielsen Company*

Progresses in Mainland China

- Covering 18 provinces and 53 cities
- Partners with 73 distributors
- 6 offices in Mainland China

Continuous Market Expansion

Tapped into FamilyMart in Taiwan

Product Highlights

BUSINESS REVIEW

Over the past year, the Hong Kong and Mainland China retail sectors experienced a modest recovery, though the latter remained challenging for many retailers. Owing to strong recognition of the Hung Fook Tong brand among the Hong Kong public, and improvement in its wholesale business on both sides of the border, the Group was able to report a year-on-year increase in total revenue of 3.7% to HK$741.9 million for the financial year ended 31 December 2017 (2016: HK$715.2 million). During the same period, gross profit rose by 5.0% to HK$463.0 million (2016: HK$440.9 million) on the back of the solid performance of the wholesale operation. Gross profit margin for 2017 increased by 0.7 percentage point to 62.4% (2016: 61.7%) due to effective cost controls. Net profit attributable to owners of the Company declined to HK$8.1 million (2016: HK$9.0 million). The discrepancy was due to a one-off gain of HK$8.2 million from the disposal of an investment property that the Group benefited from in 2016. If not for the one-off gain, the net profit for the financial year ended 31 December 2017 would have risen year-on-year by HK$7.4 million. The upturn can largely be attributed to an improvement in the wholesale segment.

The Group is in a healthy financial position with HK$113.6 million in cash and cash equivalents, and continues to enjoy strong cash flows with healthy net cash generated from operating activities.

BUSINESS SEGMENT ANALYSIS

Retail

Even though revenue from the retail segment achieved a modest year-on-year increase of 1.9% to HK$528.2 million (2016: HK$518.4 million), profit slipped by 18.5% to HK$48.5 million (2016: HK$59.5 million), due mainly to the decline in profit from the Hong Kong retail operation as a consequence of increases in raw material, staff and rental costs.

Hong Kong

The Hong Kong retail operation continued to be the largest revenue contributor of the Group, generating HK$516.1 million (2016: HK$504.0 million) in revenue for the financial year presenting a year-on-year increase of 2.4% and accounting for 69.6% of total revenue. The increment can mainly be attributed to contributions made by new shops opened during the year and partly as the result of additional contributions from the Hung Fook Tong Food Truck. Segment profit fell, however, by 19.9% to HK$50.7 million (2016: HK$63.4 million) due to the rise in raw material and staff costs, the latter resulting from an increase in wage level. Furthermore, the Group's rental expenses increased as the result of contract renewals and opening of new shops.

During the financial year, the Group exercised utmost caution in implementing its expansion plan, opening a total of four new shops. The openings involved new sales points in the Central and Lam Tin MTR stations, and at a shopping mall and a hospital respectively. In total, the Group has 115 self-operated shops in Hong Kong as at 31 December 2017, thus remaining the largest herbal retailer in the city based on retail network size.

In respect of the Group's product portfolio, it was further augmented during the financial year with the introduction of over 70 new or seasonal products, including the Organic Chicken Essence (有機滴雞精) which helped to further promote the Joyous Series (自家喜慶系列).

Besides introducing new products to stimulate consumers' taste buds, the Group also sought to enrich their consumption experience. To do so, it opened its first ever herbal-themed Pompompurin (布甸狗) pop-up café in Amoy Plaza in Kowloon Bay, which offered an exclusive selection of healthy products. Also as a means of reaching out to its customers, the Group sought to increase the number of JIKA CLUB members – membership has increased by about 95,000 during the financial year, reaching a total of more than 730,000 members. Not ignoring the importance of tech-savvy consumers, the Group introduced its own mobile application that facilitates electronic payment and enables the use of electronic coupons, thus helping to enhance operational efficiency and reduce costs over the long term.

Yet another means of reaching the masses has been the operation of its food truck, which was launched in February 2017. While contributions from the food truck were encouraging, the management views the vehicle's principal role as that of a promotional device, helping to reinforce Hung Fook Tong's image as a local brand with a rich history yet also being a trendsetter.

As for online consumers, the "Hung Fook Tong Online" platform has continued to make progress in its second year of operation. Improvements were achieved in key metrics including sales amount, average basket value and number of registered members, all of which recorded increases. And to cap off an encouraging 2017, Hung Fook Tong Online was recognised as "Quality E-Shop" by the Hong Kong Retail Management Association ("HKRMA"), under its "Quality E-Shop Recognition Scheme (優質網店認證計劃)".

Mainland China

During the financial year, revenue derived from the Mainland China retail business declined by 16.5% to HK$12.1 million (2016: HK$14.5 million), as the management sought to further downsize operations with the closure of underperforming shops. As a result of such efforts, which resulted in a more optimised operation, segment loss has further narrowed to HK$2.2 million versus a loss of HK$3.8 million in the preceding year. The Group has not, however, halted shop openings altogether, unveiling a new shop in the Guangzhou IFC shopping centre in January 2017. As at 31 December 2017, the Group has a total of 15 retail shops in Mainland China, all of which are located in Guangzhou.

Wholesale

Revenue from the wholesale operation amounted to HK$213.6 million (2016: HK$196.8 million), representing a year-on-year increase of 8.6%. Profit also climbed to HK$6.5 million versus a loss of HK$19.9 million last year. The turnaround was mainly attributable to less sales discounts/rebates and listing fees (上架費) being paid to third-party retailers, as well as more efficient investments in advertising and promotion made by the Group. As for the Hong Kong wholesale business, the rise in profit was partly due to its ability to benefit from the decrease in the average exchange rate of the Renminbi to Hong Kong Dollar in 2017, as compared to that in 2016.

Hong Kong

The Hong Kong wholesale business generated revenue of HK$132.4 million (2016: HK$125.4 million) during the financial year, representing a year-on-year rise of approximately 5.6%. The increase was achieved largely as the result of the Group's ability to keep a tight rein on sales incentives and pay less listing fees to third-party retailers. Also, the Group benefited from the better performance of a key distributor. By capturing 37.3% of the Wellness Drink market based on sales value in 2017, according to Nielsen, the Group has retained its top position in the Hong Kong Wellness Drink Category for the 15th consecutive year.

Among the promotions introduced during the financial year include "Hung Fook Tong x LINE FRIENDS" special packaging used for selected drinks, which was well received by consumers. The Group also released a re-packaged Sugarcane Juice Drink (甘蔗汁), and engaged a local celebrity Mr Bob Cheung (張彥博) to star in a series of dedicated campaigns to raise awareness of the beverage. As for new product launches, the Group brought to market the Sparkling Salted Mandarin Drink (有氣咸柑桔) and fresh drinks such as Strawberry and Blueberry with Fermented Milk Drink (士多啤梨藍莓乳酪).

To further drive growth, the Group secured more retail outlets for its bottled drink products in Hong Kong, including Chinese hotpot restaurants and takeaway food vendors. The Group also continued to expand its footprint overseas. In Taiwan, for example, the Group was able to tap FamilyMart (全家便利商店), one of the largest convenience store operators on the island with over 3,000 outlets, to distribute its Iced Lemon Tea Drink (凍檸茶) and Common Selfheal Fruit-spike Drink (夏枯草飲品), resulting in satisfactory contributions.

Mainland China

In respect of the Mainland China wholesale operation, revenue rose notably by 13.8% to HK$81.2 million (2016: HK$71.4 million). This was the result of less discounts and rebates being granted to certain accounts when compared with 2016; greater contributions from a key customer in Beijing; and stable contributions from Southern China where the Group was able to better penetrate second-tier cities in the Guangdong province.

As at 31 December 2017, the Group's extensive distribution network covers 18 provinces and 53 cities, among which Guangzhou remains the largest revenue contributor. The Group also has a total of 73 distributors, having secured three more key accounts in Shanghai and Chengdu which amounted to 20 key accounts in total in Mainland China. On the online front, the Group was able to further capitalise on its ties with online retailers such as Yihaodian (1號店), Jingdong (JD.com, 京東) and sfbest.com (順豐優選).

Production Facilities

Construction of a new production plant located in Kaiping City, Guangdong Province is expected to be completed by the end of 2018 or early 2019, to be followed by trial production. The new plant will not only play an important role in supporting the increasing demand for the Group's bottled drink products by providing additional capacity, but also facilitate cost-effective production owing to its high level of automation, thus translating into lower production cost in the long term.

In relation to the construction of the new plant, approximately HK$30.6 million of capital commitment was made and will incur in 2018 or later. As the trial production commences, related expenditures will also be spent.

PROSPECTS

The Hong Kong and Mainland China retail markets are expected to continue recovering in the near future, with HKRMA predicting an increase of 3-4% in retail sales value in Hong Kong for 2018. Nonetheless, the management will take a cautious approach towards maintaining the Group's leadership in the Hong Kong retail market, while at the same time evaluate its development in Mainland China. The Group is fully aware of the importance of controlling costs, hence will direct efforts towards managing various expenditures, in particular, rent and staff costs that will continue to rise and impact on profitability. Such endeavours will not, however, be at the expense of business development efforts as the management is fully committed to expediting delivery of omnichannel experiences to customers by optimising Hung Fook Tong Online, as well as by allocating resources to mobile application and digital membership card development.

Retail

Hong Kong

Consistent with the Group's strategy for developing the Hong Kong retail business in a prudent manner, it aims to open five to six new shops in 2018. Three shops have already been opened since the beginning of 2018, located in the Hong Kong University Station and Kennedy Town Station on the extended MTR Island Line to Western District, and in Lok Fu Place, Kowloon respectively. Another shop location along the same MTR line and one more location at a shopping mall have been secured and are scheduled to open in the second quarter of 2018. Among the new shops include one to two shops that abide by the Group's new brand concept, which will offer larger spaces where customers can fully enjoy its made-to-order products with many green and healthy options.

To drive same-store sales growth, the Group will continue to direct efforts and resources towards enriching its product portfolio. In particular, energies will be placed on developing products with re-energising properties, such as the Group's chicken essence products that are suitable not only for those recovering from illness, but also individuals seeking to build up their immune system. A key area of attention will be the Joyous Series, which will introduce more new products that are ideal for postnatal (坐月) mothers. Complementing these products will be associated training for frontline staff, so that they can offer professional well-informed advice to such mothers.

Furthermore, the Group will strengthen engagement with customers so as to best address their needs. Besides reaching customers via its mobile application, the Group will be placing eight to ten Smart Vendors named "HUNG+" at commercial buildings and various shopping malls. The machines will serve as additional sales points complementary to its retail shops, and will possess artificial intelligence (AI) to perform simple diagnostics, make health recommendations for customers, and suggest products that are most appropriate for their needs. These machines thereby enable the Group to enhance its exposure beyond shops and provide 24/7 personalised service.

Mainland China

Given the complex and rapidly evolving nature of the Mainland China retail landscape, the Group will continue to closely monitor the performance of its operations in the country, and will further refine its shop network when deemed necessary to continue enhancing segment performance.

Wholesale

Hong Kong

As the leader of the Hong Kong Wellness Drink market for well over a decade, the Group is committed to maintaining its leadership through product innovation and enhanced exposure. In respect of the former, the Group will introduce more products under the "Sparkling Herbal Series" (有氣草本系列), such as the recent introduction of the Sparkling Salted Mandarin Drink (有氣咸柑桔). As for enhancing exposure, it will seek more collaboration opportunities with popular characters similar to the Group's link-up with LINE FRIENDS. Meanwhile, in order to directly extend its reach to consumers, the Group will explore more potential partnerships with food and beverage peers, including restaurants and bakery shops.

Besides the traditional markets, the Group will continue to explore new geographical locations to promote its products. Having established a footing in Taiwan, the Group will seek to strengthen its presence by entering more supermarkets and convenience stores. Other markets that the management will look at include Vietnam and as far afield as the United Kingdom. And in light of the One Belt, One Road initiative proposed by the Chinese government, the Group will also investigate opportunities for entering countries that will benefit from the economic co-operation plan.

Mainland China

While average selling prices of beverages are likely to go up, the Group remains cautious about the fast-changing Mainland China beverage market that is expected to remain competitive in 2018. To tackle the challenges ahead, the Group will introduce products that capitalise on recent trends, such as the popularity of plant-derived beverages. The management will also continue to leverage the Group's competitive edges, including high-quality products and "Hong Kong Brand" appeal to further enhance its market standing.

In respect of driving sales in Mainland China, the Group will launch 1.5 litre-size drinks in southern parts of the country to increase penetration. Conversely, for Northern China, smaller size products from the "Hong Kong Dessert Series" (港式甜品系列) will be introduced to encourage sampling by the public. As for Eastern China, the Group will place efforts on penetrating local supermarkets and hypermarkets with discounted bulk packs. And not ignoring online opportunities, the Group will also strengthen promotions in this electronic realm via associated retailers.

CONCLUSION

As a market leader with a solid business foundation and strong brand image, the Group is committed to protecting and building on its legacy through careful observation backed by innovation. Correspondingly, it will seek to introduce more innovative products that align with the desires of its customers, including their pursuit of a healthy lifestyle. Through these and other efforts, the Group will strive to extend its lead in the Hong Kong market, while bolstering its presence in Mainland China, with an aim to enhance sales performance and profitability.

FINANCIAL OVERVIEW

Revenue

For the year ended 31 December 2017, the Group's revenue amounted to HK$741.9 million, representing an increase of 3.7% from HK$715.2 million in 2016. As Hong Kong and Mainland China retail markets experienced a modest recovery, revenue from Hong Kong retail operation has increased to HK$516.1 million, representing an increase of 2.4% from HK$504.0 million in 2016 as a result of opening new shops and participation in the Food Truck Pilot Scheme to expand customer base. Revenue from wholesales business has also increased to HK$213.6 million, representing an increase of 8.6% in 2017 from HK$196.8 million in 2016 mainly due to less sales discounts/rebates and listing fees paid to third party retailers.

Cost of Sales

For the year ended 31 December 2017, the Group's cost of sales amounted to HK$278.9 million, representing an increase of 1.7% from HK$274.3 million in 2016. As a percentage of revenue, cost of sales was 37.6% in 2017 (2016: 38.3%).

Gross Profit and Gross Profit Margin

For the year ended 31 December 2017, the Group's gross profit amounted to HK$463.0 million, representing an increase of 5.0% from HK$440.9 million in 2016. The Group's gross profit margin for 2017 increased by 0.7 percentage point to 62.4% as compared to 61.7% in 2016. Despite the continued increase in raw material costs, the Group's gross profit margin hovered at a level similar to last year due primarily to the enhancement of procurement procedures and the successful implementation of cost control measures.

Other (Losses)/Gains, Net

For the year ended 31 December 2017, other (losses)/gains, net amounted to a net loss of HK$0.1 million as compared to a net gain of HK$7.9 million in 2016. This was largely due to the recognition of a gain on disposal of an investment property of HK$8.2 million in 2016.

Staff Costs

For the year ended 31 December 2017, the Group's staff costs amounted to HK$236.1 million, representing an increase of 6.5% from HK$221.8 million in 2016. The staff costs-to-revenue ratio was 31.8% as compared to 31.0% in 2016.

Rental Expenses

For the year ended 31 December 2017, the Group's rental expenses in relation to its retail shops amounted to HK$107.3 million, representing an increase of 8.3% from HK$99.1 million in 2016. 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 (including shops in Hong Kong and Mainland China) was 20.3% as compared to 19.1% in 2016.

Advertising and Promotion Expenses

For the year ended 31 December 2017, the Group's advertising and promotion expenses amounted to HK$28.8 million, representing a decrease of 13.9% from HK$33.5 million in 2016. This accounted for 3.9% and 4.7%, respectively, as percentage to revenue in 2017 and 2016. More marketing expenses had been incurred for the Group's 30th anniversary celebration in 2016.

Depreciation and Amortisation

For the year ended 31 December 2017, the depreciation and amortisation of the Group amounted to HK$30.9 million, representing a decrease of 8.7% from HK$33.8 million in 2016. This accounted for 4.2% and 4.7%, respectively, as percentage to revenue in 2017 and 2016.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2017 was HK$8.1 million, representing a decrease of 9.5% from HK$9.0 million in 2016. The non-recurrence of the one-off gain on disposal of an investment property of HK$8.2 million recognised in 2016 was mostly made up by an improvement in the operating results, especially in the wholesale business. The net profit margin (calculated as profit for the year as a ratio of revenue) for the year ended 31 December 2017 was 1.1%, as compared to 1.2% in 2016.

Basic earnings per share for the year amounted to HK1.24 cents, as compared to HK1.37 cents in 2016.

Capital Expenditure

During the year ended 31 December 2017, capital expenditure amounted to HK$47.3 million. This amount was used mainly for the opening of new shops, the revamping of existing retail shops and the production facilities in Mainland China and Tai Po plants, as well as the acquisition of land and construction for the new production plant in Kaiping City, Mainland China.

Liquidity and Financial Resources Review

Our Group is financially sound with bank deposits and cash amounting to HK$114.7 million as at 31 December 2017 (31 December 2016: HK$132.2 million).

As at 31 December 2017, the gearing ratio of the Group was 0.20 (31 December 2016: 0.26), which was calculated based on total interest bearing borrowings divided by total equity attributable to owners of the Company.

As at 31 December 2017, the Group has total banking facilities of HK$122.1 million (31 December 2016: HK$172.4 million) of which HK$54.1 million (31 December 2016: HK$69.2 million) has been utilised.

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

Foreign Currency Risk

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

Material Acquisitions, Disposals and Significant Investments

Except for the acquisition of land and the construction of a new plant in Kaiping City, Guangdong Province, there were no other material acquisitions, disposals and significant investments in our Group during the year ended 31 December 2017.

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 of 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 which the Directors consider an outflow of resources is not probable.

Human Resources

As at 31 December 2017, the Group employed approximately 1,366 employees. Remuneration was based on market price, individual qualification and experience, and there was discretionary bonus based on years of service and performance appraisal.

During the year ended 31 December 2017, various training activities, such as orientation on both frontline and back office operations, customer services & sales skills, product knowledge (Herbal Ambassador Program) and retail operations, have been conducted to improve the quality of frontline services, as well as enhance customer experience and to ensure the smooth and effective operation of the Point-of-Sales ("POS") system. A supervisor trainee program was also implemented to attract talents, enhancing the leadership skills of the participants including their professional and managerial techniques as well as their knowledge in machinery monitoring and production processing.

CORPORATE SOCIAL RESPONSIBILITY

As a leading food and beverage brand in Hong Kong, Hung Fook Tong recognises the tremendous responsibility such leadership entails. That is why the Group has always sought to maintain the highest quality standards, whether it relates to operations, products or people. Such accountability is also reflected in the Group's commitment to corporate social responsibility (CSR) which is an important part of its corporate culture. In making a difference in the community, the Group has sought to minimise the impact of its operations on key stakeholders, the environment and society along with its approach towards sustainability including "Giving Back to Society", "Promoting a Natural and Healthy Lifestyle", "Supporting Diversity and Equality", and "Minimising Environmental Impact".

The Group will publish its 2017 Environmental, Social and Governance (ESG) Report in July 2018 according to the requirements as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which will provide further details in these aspects.

ENVIRONMENTAL

Energy Conservation

In recognition of the Group's efforts to reduce energy consumption, approximately 20% of the Group's retail stores have received a "Gold Award" from the Environment Bureau in 2017, for fulfilling the pledge to switch off external lighting following the signing of the "Charter on External Lighting" (戶外燈光約章). Also, it is worth noting that over 90% of its retail shops are now equipped with door-closing fridges, or fridges with either plastic curtains or sliding doors, so as to reduce energy consumption.

Waste Reduction and Recycling

In order to reduce the impact on the environment, the Group has continued to offer food waste from its Tai Po production plant to a recycling company on a daily basis. This has consequently resulted in the recycling of 104.5 tonnes of food waste in 2017 alone, leading to the cutting of greenhouse gas emissions by 23.5 tonnes of carbon dioxide equivalent ("CO_2e"). The Group is also a partner with various food banks such as People Service Centre, which conducts regular collection of surplus food at selected retail stores and redistributes the food to the needy.

Furthermore, the Group continues to offer discount coupons as incentives for a number of plastic bottle recycling machines that can be found across Hong Kong aiming to encourage the public to reduce their carbon footprint.

On the other hand, as a means of reducing the amount of waste requiring disposal, the Group has joined the "Programme on Source Separation of Commercial and Industrial Waste" (工商業廢物源頭分類計劃), organised by the Environmental Protection Department, to set up and implement suitable mechanism to separate and recover waste. At the same time, various materials from its Tai Po factory were recycled, including plastic, wooden pallets, paper and scrap metal.

Environmental Awareness and Green Practices

In setting an example for customers to adopt a greener shopping lifestyle, the Group has introduced a mobile application which will be in place of a physical membership card and help to reduce the use of paper coupons in the long run. Incentives were also offered to customers upon switching to electronic coupons. Yet another means of leading by example, the Group collaborated with a local creative research and development platform to transform used tea leaves from Chinese herbal tea into 100% natural handmade soap. The up-cycled herbal soap products were promoted among the public during the opening of a pop-up store at PMQ (元創方) in Central in late 2017.

Green Initiative

To promote the benefits of up-cycling, the Group opened a pop-up store at PMQ (元創方) in Central, selling handmade up-cycled herbal soap products made of used herbal tea leaves in late 2017.

SOCIAL

Talent Development

As at 31 December 2017, the Group had 1,366 employees comprising 891 staff members in Hong Kong and 475 in Mainland China. To encourage their professional growth, the Group organised around 150 training courses which led to an aggregate of about 2,210 attendances. The Group continues to welcome new employees, and is an equal opportunity employer, providing job opportunities to Non-governmental Organisations (NGOs) serving the disadvantaged such as Hong Chi Association, Caritas Lok Kin Workshop and Christian Family Service Centre.

Supply Chain Management and Product Responsibility

As at 31 December 2017, the Group had about 170 key suppliers. A strict vetting process was observed in their selection, followed by ongoing monitoring to ensure that the suppliers, vendors, third-party logistic partners and other service providers maintained standards expected by the Group, particularly in relation to food safety which is its top priority. The Group is no less strict with regard to its own operations, with both the Tai Po and Shenzhen production plants employing stringent quality controls and are compliant with internationally recognised ISO standards.

Community Investment

To give back to the community, over 210 NGOs, schools and associations were offered cash support, in-kind donations of products or coupon sponsorships in 2017, at a total value of approximately HK$1.5 million. Also during the year, the Group's employees participated in charity events and voluntary services, involving an aggregate of 123 attendances which amounted to 548 service hours.

ACHIEVEMENTS

In recognition of the Group's CSR efforts during the past year, it was presented with the "Shops and Retailers – Silver Award" from the 2017 "Hong Kong Awards for Environmental Excellence" (香港環境卓越大獎), and also garnered the title "Hong Kong Green Organisation" (香港綠色機構). Such accolades were in acknowledgement of the Group for promoting good environmental practices and associated management excellence.

The Group was also named "Best in ESG – Small Market Capitalisation" presented by BDO ESG Awards (環境社會及管治大獎) organised by BDO Limited in Hong Kong. The title was in honour of the Group's positive impact on such areas as environment, employment and labour practices, operational practices and community investment through the implementation of satisfactory sustainability initiatives.

Social Investment

The Group encourages staff to participate in community services and promotes a healthy lifestyle within the Group.

AWARDS AND RECOGNITIONS

In recognition of the Group's outstanding achievements both within and outside the industry, including its continuous efforts to promote good corporate governance and foster advancement of society, the Group has been praised with numerous awards during the year 2017 include the following:

Award	Issuer of Award
RECOGNITION ON BRAND MANAGEMENT AND CUSTOMER SERVICE	
The Hong Kong Q-Mark Service Scheme & Q-Mark Elite Brand Awards 2017	The Federation of Hong Kong Industries
Hong Kong Service Awards 2017 & Outstanding Honorary Award	East Week
Superbrands 2017	Superbrands
2017 Hong Kong Top Brand	Hong Kong Brand Development Council & The Chinese Manufacturers' Association of Hong Kong
GS1 Consumer Caring 5 years+	GS1 Hong Kong
2017 Quality E-Shop	Hong Kong Retail Management Association
2017 My Favourite MTR Shops – Delightful Food & Beverage – Award of Excellence	MTR Corporation Limited
PARKnSHOP Super Brands Award 2016 – Healthy Drinks	PARKnSHOP
RECOGNITION ON ENVIRONMENTAL EFFORTS	
Hong Kong Awards for Environmental Excellence 2017: Shops and Retailers – Silver Award	Environmental Campaign Committee
Hong Kong Green Organisation	Environmental Campaign Committee
BDO ESG Awards 2018: Best in ESG – Small Market Capitalisation	BDO Limited, Hong Kong
Charter on External Lighting Award (Gold Award)	The Environment Bureau
RECOGNITION ON COMMUNITY INVESTMENT	
Caring Company 2006-2017	The Hong Kong Council of Social Service
Social Capital Builder 2016-2018	The Labour and Welfare Bureau
2015/16 Y-Care CSR Scheme (Bronze Partner)	Chinese YMCA of Hong Kong
RECOGNITION ON TALENT DEVELOPMENT	
Happiness-at-Work 5 years+	The Hong Kong Productivity Council
ERB Manpower Developer Award Scheme: Manpower Developer (2011-2019)	Employees Retaining Board

EXECUTIVE DIRECTORS

Mr. TSE Po Tat, aged 64, is the Chairman and an executive Director of our Company and currently a director of various 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 31 years of experience in commerce and the herbal drinks industry, respectively. After joining our Group in November 1988, he developed our central production facilities and product delivery logistics and managed our procurement of production equipment and the leasing and renovation of retail shops. Mr. Tse currently is the vice-chairman of the Hong Kong Federation of Restaurants and Related Trades Limited, a member of the executive committee of Group 8: Food, Beverages and Tobacco of the Federation of Hong Kong Industries, an elected member of the General Committee and a member of the Promotion and Advocacy Committee of the Hong Kong Brand Development Council, as well as a member of the HKTDC Mainland Business Advisory Committee. Mr. Tse had obtained "2016 Honorary Fellow" from The Professional Validation Council of Hong Kong Industries in December 2016.

Mr. KWAN Wang Yung, aged 63, is the managing Director and an executive Director of our Company, a member of Nomination Committee and the chairman of Strategy and Development Committee. Mr. Kwan currently serves as a director of various subsidiaries of the Company. He is one of our founders and oversees overall management, production and quality control. He is also responsible for setting and implementing our business strategies, and accounting and finance. He has over 31 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. Mr. Kwan is currently a director and the vice-chairman of the executive committee of The International Food Safety Association.

Dr. SZETO Wing Fu, aged 56, 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 various subsidiaries of the Company. He 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. He had been an associate professor of the Department of Business Administration of Hong Kong Shue Yan University over 15 years. Dr. Szeto is currently a member of the Committee on Employees Compensation Assistance Fund Board and a member of executive committee of the Hong Kong Retail Management Association. He is also the member of the executive committee, and the chairperson of the committee on Social Enterprise and Employment of The Hong Kong Society for Rehabilitation. 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. Dr. Szeto is a Fellow FCPA (Aust.) of CPA Australia.

Ms. WONG Pui Chu, aged 58, 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 various subsidiaries of the Company. She is one of our founders and responsible for our market research, retail business development and product development. She has over 31 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KIU Wai Ming, aged 69, 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. Mr. Kiu was an executive director and chief executive officer of Vestate Group Holdings Limited (formerly known as "Walker Group Holdings Limited"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 1386), from June 2007 to April 2016. 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 Main Board of 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 Main Board of 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 was also an independent non-executive director of Man Sang International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 938) from September 2004 to July 2016. Mr. Kiu obtained a Bachelor of Science from Louisiana State University and Agricultural and Mechanical College in December 1972.

Professor SIN Yat Ming, aged 62, 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 had been a member of the Faculty of Business Administration of The Chinese University of Hong Kong ("CUHK") for over 30 years. He was 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 Main Board of the Stock Exchange (stock code: 592).

Mr. Andrew LOOK, aged 53, 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 Main Board of the Stock Exchange (stock code: 488). He was an investment officer at Hang Seng Bank Limited, a company listed on the Main Board of 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 was an independent non-executive director of TCL Communication Technology Holdings Limited from September 2010 to October 2016, a company privatized and delisted from the Main Board of the Stock Exchange on 30 September 2016, and an independent non-executive director of Man Sang Jewellery Holdings Limited (stock code: 1466) from September 2014 to December 2016, a company listed on the Main Board of the Stock Exchange. Mr. Look obtained a Bachelor of Commerce from the University of Toronto in June 1986.

Mr. Look has been appointed as an independent non-executive director of Cowell e Holdings Inc. (stock code:1415) with effect from 3 April 2017, which its shares are listed on the Main Board of the Stock Exchange; and has been appointed as the Chief Investment Officer of the asset management business of Tou Rong Chang Fu Group Limited ("Tou Rong Chang Fu") which shares are listed on the Main Board of the Stock Exchange (stock code: 850) and the Representative Officer of China Hong Kong Link Asset Management Limited (an indirectly wholly owned subsidiary of Tou Rong Chang Fu) with effect from 18 April 2017. He also serves as an independent non-executive director of Ka Shui International Holdings Limited (stock code: 822), CITIC Resources Holdings Limited (stock code: 1205) and Union Medical Healthcare Limited (stock code: 2138), all companies listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Ms. TULL Shuk Ching, aged 55, is a senior assistant general manager of our retail operations and management division and is responsible for the division's business development, operations and staff training. Prior to joining our Group in December 1998, she had around three years of experience in business operations and administration. Ms. Tull was an administration manager at Sinorich Holdings Ltd. from July 1997 to November 1998, and an operation manager at Gialetti Gelato and Foods (China) Ltd. and Wellco Enterprises Ltd. from October 1995 to March 1997 and October 1993 to October 1995, respectively. Ms. Tull obtained a Bachelor of Law from Peking University in July 2001 through a part-time programme jointly run by Peking University and Hong Kong Shue Yan College and a Bachelor of Arts from the National Cheungchi University in June 1983. She obtained a postgraduate certificate in business administration from The Open University of Hong Kong in June 2003 by distance-learning and passed the 5-S lead auditor training course held by Hong Kong Baptist University Business Research Centre and Hong Kong 5-S Association in November 2000. She has obtained various qualifications in Chinese medicine through evening courses, including a Certificate in the Foundations of Acupuncture, Advanced Diploma in the Foundations of Chinese Medicine and Diploma in Chinese Medicine for Beauty Studies from the Hong Kong University School of Professional and Continuing Education in August 2013, November 2012 and November 2008, respectively, and a Certificate in Dispensing (Practicum) in Chinese Medicine and Foundation Certificate in Chinese Medicine from Hong Kong Baptist University in September 2011 and August 2005, respectively.

Ms. POON Chi Nga, aged 47, is a senior assistant general manager of our bottled drinks development division and responsible for the division's business development, and sales and marketing. She has over 24 years of experience in the food and beverage industry. Prior to joining our Group in August 2004, she was a business development manager at RBT International Limited from June 2003 to May 2004; a product manager and a category manager at Swamex Food Service Ltd. (formerly known as Lam Soon Food Supply Co. Ltd.) from May 2000 to August 2001 and from August 2001 to December 2002 respectively; an operations and administrations manager at Lucullus Food and Wines Co. Ltd. from May 1999 to January 2000; a personnel administration manager at FPD Eurest Catering Services (formerly known as FPD Catering Services Limited) and administration manager from January 1997 to October 1997 and from March 1998 to April 1999 respectively, and an administration manager and a 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 40, 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 15 years of experience in accounting and finance field. Mr. Lo's experience in auditing and tax advisory services was gained from his various positions in Deloitte Touche Tohmatsu Limited from February 2002 to June 2009. Mr. Lo was the financial controller of Hanyu China Holdings Limited from June 2009 to October 2013, and also was the financial controller of 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 degree of Bachelor of Arts (Honour) in Accounting from Manchester Metropolitan University in Manchester, United Kingdom in June 2001. He is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Lo was admitted to full membership of CPA Australia on 25 May 2017.

Mr. Lo was appointed as an independent non-executive director of Dragon Rise Group Holdings Limited with effect from 18 January 2018, a company listed on the Main Board of the Stock Exchange (stock code: 6829).

Mr. LEE Bang Lau, aged 60, is an assistant general manager of our Group's PRC division 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 30 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.

Mr. LEUNG Tat Wing, aged 53, is an assistant general manager of the Group and responsible for facilitating and coordinating all matters involving treasury, production, trademark, legal and compliance. He has over 21 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.

Ms. CHOU Siu Wai, Vivian, aged 41, is a senior manager of our Group and responsible for marketing, advertising, visual merchandising and corporate public relations. Ms. Chou has over 15 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 38, 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 13 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 41, 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 18 years of experience in human resource management and development. Prior to joining our Group in March 2007, she was a human resources and training officer at Laws group from November 2005 to July 2006. She was an assistant officer and officer II in the training and development department of Christian Action between November 2002 and August 2005 and a counsellor of Hong Kong Church of Christ Company Limited from September 1998 to August 2002. She has been a fully qualified and accredited administrator of the Myers-Briggs Type Indicator suite of instruments since January 2010. Ms. Tsang obtained a Bachelor of Business in Management from RMIT University in June 2009 through a part-time programme and a Higher Diploma in Manufacturing Engineering from Hong Kong Technical College in June 1998.

Mr. SUN Man Lung, aged 42, is the manager of our Group and responsible for customer relationship management and institutional sales. Mr. Sun has over 19 years of experience in the marketing of fast-moving consumer goods and health products, and customer relationship management. Prior to joining our Group in April 2007, he worked as an assistant customer relationship manager at Healthy International Limited from March 2006 to February 2007. He worked as a marketing supervisor at Maxion International Group Limited and Open Fortune Community (HK) Ltd. from April 2005 to February 2006 and October 2003 to February 2005, respectively, and as a sales executive at Longain Watches Manufacturing Ltd. and Ceba Precision Co., Ltd. from June 2000 to September 2003 and September 1996 to June 2000, respectively. Mr. Sun obtained a Professional Diploma in Marketing from CUHK in March 2004 and a Certificate in Customer Relationship Management from Hong Kong Baptist University's School of Continuing Education in December 2012, both through a part-time programme.

Ms. CHAN Sui Lan Ellen, aged 45, serves as a 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 19 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 59, is the company secretary of the Group and was appointed in May 2015. He has over ten 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) and Expert Systems Holdings Limited (stock code: 8319), companies listed on the Main Board and GEM Board of the Stock Exchange respectively. Mr. Lau is a fellow member of both the ACCA and the HKICPA.

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 2017.

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, herbal tortoise plastron jelly and other food products under 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 2017 is set out in Note 5 to the consolidated financial statements.

BUSINESS REVIEW

In accordance with schedule 5 of the Companies Ordinance (Cap 622 of the laws of Hong Kong), a fair review of the Group's business and the analysis of the Group's performance for the year ended 31 December 2017 as well as outlook/prospects of the Group's business are provided in the sections "Chairman's Statement" on pages 6 and 7 and "Management Discussion & Analysis" on pages 10 to 17 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 summarised as follows:

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

  In order to mitigate such impact, the Group is continuing to expand the wholesales business in Taiwan and overseas. The Group continues to take a cautious approach in steering its way forward, and recognises the need to sustain retail sales momentum.

- Intense competition in the retail market in Mainland China and Hong Kong

  In order to satisfy the high-end customers in Mainland China and Hong Kong in their favour for unique and healthy drinks, the Group plans to launch more flavours to cope with the changing consumer preference and hence enhance the competitiveness. Meanwhile, as a means of reaching out to its customers, the Group has developed the loyalty program – "JIKA CLUB" which attracts and retains the members through offering them various promotions and discounts. As at 31 December 2017, there are over 730,000 JIKA Club members among which included Platinum Members who are highly brand loyal and have significant spending power.

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 52 to 117 and 15 to 17, 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. A brief review is set out in "Corporate Social Responsibility" on pages 18 and 19 of this Annual Report and the further details will be disclosed in our 2017 Environmental, Social Governance Report to be published in July 2018 under the requirements as set out in Appendix 27 of the Listing Rules.

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 Main Board of the Stock Exchange.

During the year ended 31 December 2017 and up to the date of this Directors' Report, the Group has complied with all relevant laws and regulations in the above-mentioned jurisdictions.

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 continue 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 selects 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 and Analysis", "Corporate Social Responsibility" and "Corporate Governance Report" on pages 6 and 7, 10 to 17, 18 and 19 and 38 to 46, respectively, of this Annual Report, further details will be disclosed in our 2017 Environmental, Social Governance Report to be published in July 2018.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income on page 52 of this Annual Report.

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017.

A final dividend in respect of the year ended 31 December 2017 of HK0.37 cent per ordinary share has been proposed by the Board. In addition, to reward the continuous support of our shareholders the Board proposed a special dividend of HK0.31 cent per ordinary share. The proposed final and special dividends amounted to a total of HK$4,460,000 with dividend payout ratio of 0.55 have to be approved by shareholders in the forthcoming annual general meeting ("AGM") to be held on 8 June 2018. 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 2018.

Subject to the approval of the shareholders at the forthcoming AGM, the final dividend and the special dividend will be payable on or about Friday, 13 July 2018 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Friday, 22 June 2018.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in Note 35 to the consolidated financial statements and the consolidated statement of changes in equity on page 55 of this Annual Report.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution to shareholders amounted to approximately HK$210.9 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$112.1 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.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Friday, 8 June 2018, the register of members of the Company will be closed from Monday, 4 June 2018 to Friday, 8 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 1 June 2018.

For determining the entitlement to the proposed final dividend and the special dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 15 June 2018 to Friday, 22 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and the special dividend 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 14 June 2018.

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 118 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

As at 31 December 2017, certain assets of the Group have been pledged to secure bank borrowing facilities, details of which and particulars of all bank borrowings of the Company and of the Group as at 31 December 2017 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 2017.

DONATIONS

Charitable donations made by the Group during the year ended 31 December 2017 amounted to HK$211,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, 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 TO HOLDERS OF LISTED SECURITIES

The Directors are not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holdings of the Company's securities.

DIRECTORS

The Directors during the year and 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

There have been no changes in Directors during the year.

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/herself 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. Mr. Kwan Wang Yung, Ms. Wong Pui Chu 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' SERVICE CONTRACTS/LETTERS OF APPOINTMENT

Each of the executive Directors has respectively entered into a renewed service contract commencing from 11 June 2017 with the Company for a further term of three years. The service contracts may be terminated in accordance with the respective terms of the service contracts. The three independent non-executive Directors were appointed pursuant to the respective new letter of appointment for a further term of three years commencing from 11 June 2017. The letters of appointment may be terminated in accordance with the respective terms of the letters of appointment.

None of the Directors of the Company has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries other than contracts expiring or terminable by the Company within one year.

PERMITTED INDEMNITY PROVISION

During the financial year and up to date of this Report, the Company has in force indemnity provisions as permitted under the relevant statues for the benefit of the Directors of the Company. The permitted indemnity provisions are provided according to the Company's Articles of Associations and the Company has maintained the directors and officers liability insurance in respect of potential liability and costs associated with legal any proceedings which may be brought against the Directors of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, 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 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 (the "Code of Conduct") 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 & 3)	Interests held jointly with other persons; Beneficial interest; Interest in a controlled corporation	403,656,600 (Long position)	61.54
Mr. Tse Po Tat (Notes 1 & 4)	Interests held jointly with other persons; Interest in a controlled corporation	403,656,600 (Long position)	61.54
Mr. Kwan Wang Yung (Notes 1 & 5)	Interests held jointly with other persons; Interest in a controlled corporation	403,656,600 (Long position)	61.54
Dr. Szeto Wing Fu (Note 6)	Interest in a controlled corporation	24,704,600 (Long position)	3.77

Notes:

(1) Pursuant to a deed of confirmation dated 27 March 2014 executed by Ms. Wong Pui Chu, Mr. Tse Po Tat, Mr. Kwan Wang Yung, Think Expert Investments Limited ("Think Expert"), YITAO Investments Limited ("YITAO") and Prestigious Time Limited ("Prestigious Time") collectively (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 0.27% (being 1,810,000 shares) by Ms. Wong Pui Chu.

(3) The Company was directly owned as to 29.22% (being 191,638,200 Shares) by 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.

(4) The Company was directly owned as to 18.16% (being 119,122,400 Shares) by 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.

(5) The Company was directly owned as to 13.89% (being 91,086,000 Shares) by 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.

(6) 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 2017, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and the Code of Conduct.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, 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:

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	403,656,600 (Long position)	61.54
YITAO (Note 2)	Interests held jointly with other persons; Beneficial interest	403,656,600 (Long position)	61.54
Ms. Chan Suk Hing Comita (Note 3)	Interest of spouse	403,656,600 (Long position)	61.54
Prestigious Time (Note 4)	Interests held jointly with other persons; Beneficial interest	403,656,600 (Long position)	61.54
Mrs. Kwan Chan Lai Lai (Note 5)	Interest of spouse	403,656,600 (Long position)	61.54

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 2017, the Directors had not been notified of any other corporation or individual (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Annual Report, at no time during the year ended 31 December 2017 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 optimise 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 10 June 2024). 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 but not limited to 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 2017, 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 2017.

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 or advisor of our contractor to the Group or an Affiliate.

2. The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall be not less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day, (ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option, and (iii) the nominal value of a Share on the date of grant. The exercise price shall also be subject to any adjustments made in a situation contemplated under effects of alterations to capital.

PRE-IPO SHARE OPTION SCHEME

On 11 June 2014, the Company adopted a pre-IPO share option scheme (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. All pre-IPO share options that have not been exercised by the relevant Grantee prior to the third anniversary date of the Listing Date (i.e. 4 July 2017) would lapse and be deemed as cancelled and void. As at 31 December 2017, all outstanding options granted under the Pre-IPO Share Option Scheme had been expired and deemed as cancelled and void. The Company had no share options outstanding under the Pre-IPO Share Option Scheme. Movement of the granted options under the Pre-IPO Share Option Scheme for the year ended 31 December 2017 is as follow:

Name of Grantee	At 1 January 2017	Exercised during the year	Cancelled during the year	Lapsed during the year	Expired during the year	At 31 December 2017	Date of Grant	Exercisable Period	Exercise Price (HK$)
Chan Hiu Cheuk (Note 1)	450,000	–	–	–	(450,000)	–	16.06.2014	04.01.2015-04.07.2017	1.00
Tse Kei Tai (Note 2)	20,000	–	–	–	(20,000)	–	16.06.2014	04.01.2015-04.07.2017	1.00
	470,000	–	–	–	(470,000)	–			
Other employees	9,514,000	–	–	(24,000)	(9,490,000)	–	16.06.2014	04.01.2015-04.07.2017	1.00
Total	9,984,000	–	–	(24,000)	(9,960,000)	–			

Notes:

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

(2) 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 2.20 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 the end of the financial year ended 31 December 2017 or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, 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 Corporate Governance 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 36 to the consolidated financial statements.

CHANGES IN INFORMATION OF DIRECTORS

Subsequent to publication of the 2017 Interim Report, the changes in information of Directors are set out below pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules:

— Mr. Kiu Wai Ming, Independent Non-executive Director of the Company, had ceased to be an independent non-executive director of CCB International (Holdings) Limited, an investment bank wholly-owned by China Construction Bank Corporation on 31 December 2017.

— Mr. Tse Po Tat, Chairman and an Executive Director of the Company, had been appointed as a member of HKTDC Mainland Business Advisory Committee with effect from 1 April 2018.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Listing Rules throughout the year ended 31 December 2017.

DEED OF NON-COMPETITION

The Controlling Shareholders 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 2017.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the "Corporate Governance Report" on pages 38 to 46 of this Annual 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 utilised as follows:.

	As set out in the prospectus HK$'million	Amount actually used up to 31 December 2017 HK$' million	Unutilized amount as at 31 December 2017 HK$'million
Opening of new retails shops in Hong Kong and Mainland China	101.2	65.2	36.0
Promotion and marketing	33.5	33.5	–
Improving information system	5.4	5.4	–
Recruitment of new staff	12.3	12.3	–
Expansion of distribution network for wholesale in Mainland Chaina	9.9	6.0	3.9
Repayment of bank borrowings	19.6	19.6	–

AUDITOR

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 proposed at the AGM to be held on Friday, 8 June 2018 to re-appoint 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 2017.

On behalf of the Board

Tse Po Tat
Chairman and Executive Director

Hong Kong, 27 March 2018

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 within the Group.

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 control and risk management systems 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 2017.

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 2017.

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 Group 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 Group's assets and the interests of shareholders. Furthermore, the Board is responsible for reviewing the performance of the Group'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, risk management and internal control, 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 Group are delegated to the management.

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 of Director	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

Detailed biographies of the Directors are shown on pages 21 and 22 of this Annual Report. 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 had signed a declaration confirming independence for the year ended 31 December 2017. Throughout the year under review, the Board at all times fulfilled the requirements of Rules 3.10(1) and 3.10(2) and 3.10A of the Listing Rules relating to the sufficient number of independent non-executive Directors with at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

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 2017, all Directors received regular briefings and updates on the Group's business, operations, risk management, 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, notice within reasonable time will be given. The Directors' attendance at board meetings and general meeting of the Company during the year ended 31 December 2017 are listed below:

	Board Meetings		General Meeting	
Name of Director	Number of meetings held during the year	Number of meetings attended	Number of meeting held during the year	Number of meeting attended
Tse Po Tat	7	7	1	1
Kwan Wang Yung	7	1	1	0
Wong Pui Chu	7	7	1	0
Szeto Wing Fu	7	7	1	1
Kiu Wai Ming	7	7	1	1
Sin Yat Ming	7	7	1	1
Andrew Look	7	7	1	1

Apart from the regular Board meetings, the Chairman also held a meeting with all independent non-executive Directors on 29 August 2017 without the presence of other executive Directors.

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; oversee the Group's financial reporting system, risk management and internal control systems; coordinate with internal and external auditors to ensure the adequacy of resources to internal audit and review and monitor its effectiveness, 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 2016;
- reviewed the unaudited interim financial statements for the six months ended 30 June 2017;
- made recommendations to the Board for approval of the above-mentioned financial statements;
- reviewed and approved the internal audit plans and reviewed reports from the internal audit department of the Company;
- 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 risk management and internal control systems;
- determined the interim review and annual audit fees of the external auditors; and
- reviewed the terms of references of the committee to consider if any proposed changes that deemed appropriate or advisable.

Apart from the regular audit committee meetings, the committee also held a meeting with external auditors without the presence of the management on 28 March 2017.

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 and senior management; assessing performance of executive directors and senior management; reviewed the composition of senior management; discussed and recommended the remuneration packages of the directors during renewal of their respective service contract/letter of appointment and packages of senior management for the Board's approval; and reviewed the terms of references of the committee to consider if any proposed changes that deemed appropriate or advisable.

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

Emolument Bands	Number of Individuals
Below HK$1,000,000	8
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 36 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.

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 policies, 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, 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, and reviewed the terms of references of the committee to consider if any proposed changes that deemed appropriate or advisable.

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 Group'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 21 meetings. Ms. Wong and Dr. Szeto have attended all the meetings, while Mr. Kwan had not attended any of the meetings due to personal reasons. During the meetings, strategies concerning business development 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.

Risk Management and Internal Control

The Board is responsible for maintaining adequate risk management and internal control systems to safeguard shareholders' investments and the Group's assets, and reviewing its effectiveness 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 risk assessment and internal audits of the Group. These are risk-based audits designed to review the effectiveness of the Group's risk management and material internal controls so as to provide assurance that key business and operational risks are identified and managed, and to ensure that the risk management and internal control measures are carried out appropriately and are functioning as intended. The internal audit department reports its findings to the audit committee and the Board and makes recommendations to optimise the risk management and internal control systems of the Group.

The Group has also established a set of risk management policies and measures, which have been codified in its policies and adopted by it. Such policies and measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The ultimate goal of the Group's risk management policies and measures is to bring focus and effort to the issues in its business operations that create impediments to the Group's success. The Group's risk management process starts with identifying the major risks associated with its business, industry and market in the ordinary course of business. Depending on the likelihood and potential impacts of the relevant risks exposed to the Group, the management will prioritise the risks and will either take immediate mitigating action, devise contingency plan or conduct periodic review in accordance with the contingency plan.

All operating departments are responsible for identifying and analysing the risks associated with their respective function, preparing risk mitigation plans, measuring effectiveness of such risk mitigation plans and reporting status of risk management. The internal audit department is responsible for coordinating and advising on matters in relation to risk management and corporate governance matters of the Group, while the audit committee and ultimately the Board will supervise the implementation of the Group's risk management policies and measures.

The management has confirmed to the Board and the audit committee that based on a review of the risk management and internal control systems of the Group performed during the year ended 31 December 2017, they are considered to be effective and adequate. The Board has also reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions, and their training programmes and budget and considered that the Group had adequate staff resources with the competence, qualifications and experience necessary for the effective performance of its accounting, internal audit and financial reporting functions.

The Group also has a formal written whistle-blowing policy to enable staff members to communicate their concerns about any aspect of risks and internal operations.

In relation to the handling and dissemination of inside information in accordance with the Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), the Group has adopted measures including raising awareness of confidentiality in the Group, issuing notices regarding "black-out" period and restrictions on dealings to Directors and employees on a regular basis to ensure compliance when handling and disclosing inside information.

Auditor's Remuneration

The remuneration paid or payable to PricewaterhouseCoopers, independent auditor of the Company, in respect of the audit services for the year ended 31 December 2017 and interim review for the six months ended 30 June 2017 amounted to HK$2.9 million. The remuneration paid or payable to PricewaterhouseCoopers in respect of other permissible non-audit services amounted to HK$0.3 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 47 to 51 of this Annual Report.

Company Secretary

Mr. Lau Siu Ki of Hin Yan Consultants Limited, an external service provider, has been engaged by the Company as the Company Secretary. The primary contact person at the Company, whom Mr. Lau contacts 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 confirmed that he had taken no less than 15 hours of relevant professional training.

Investor Relations and Shareholders' Rights

The Company is committed to maximising 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' meeting and other shareholders' meeting(s) 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 for investors and shareholders. Mechanisms for enabling shareholder participation will be reviewed on a regular basis by the Board to encourage the highest level of participation.

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be published on the websites of the Stock Exchange and the Company after the relevant meeting.

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, and such meeting for the transaction of any business specified in such requisition 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 2017, 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)

OPINION

What we have audited

The consolidated financial statements of Hung Fook Tong Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 117, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Trade receivables; and
- Sales rebates and discounts in wholesale of bottled drinks.

Key Audit Matters	How our audit addressed the Key Audit Matters
Trade receivables Refer to Note 4(d) and Note 19 to the consolidated financial statements The Group's trade receivables principally derived from its wholesale and distribution of bottled drinks in Hong Kong and other parts of the People's Republic of China (the "PRC"). As at the year end, the Group's trade receivables from third party customers amounted to HK$54.9 million, of which over 37% was past due but not yet impaired. The Group is therefore exposed to a risk of default in respect of past due and long-aged trade receivable balances. This increased risk is factored into our audit approach with respect to the provision against trade receivables.	We tested a sample of the aging profile and post-year-end subsequent settlement of the Group's trade receivables and focused on outstanding balance which no provision has been made. We also inquired and assessed management's judgement on the recoverability of those un-provided amounts, corroborating with underlying documents and correspondence with the customers. Based upon the above, we found that management had taken reasonable judgements that were supported by the available evidence in respect of the recoverability of receivables.

Key Audit Matters	How our audit addressed the Key Audit Matters
Sales rebates and discounts in wholesale of bottled drinks Refer to Note 2.23(a) and Note 4(g) to the consolidated financial statements The Group has various sales rebates and discounts programmes with third party customers, such as supermarkets and convenience stores, and wholesalers in Hong Kong and the PRC. These programmes include trade discounts, promotional discounts and target rebates. Sales rebates and discounts are estimated and reassessed at each balance sheet date with reference to the latest available sales contracts and previous constructive obligation established with the customers. Estimation based on current market information may vary over time and/or among customers, which could differ from actual amount upon mutual agreement with customers. These arrangements result in deduction to gross sales in arriving at revenue and give rise to obligations for the Group to provide customers with sales rebates and discounts, and the unsettled amounts are recognised as an accrual or a reduction against trade receivables, depending on their nature. We focused on this area because rebates and discounts are complex with various arrangements with different customers; and establishing an appropriate accrual requires significant judgement and estimation by management, which was manually calculated and recorded.	We understood, evaluated and tested management's key control in respect of the review on sales rebates and discounts granted to customers as well as the approval for the sales rebates and discounts granted. We conducted substantive testing of sales rebates and discounts recognised during the year, using sampling techniques, with particular attention to whether the sales rebates and discounts was recognised in the correct period and the appropriateness of accrued sales rebates and discounts at the year end. Where available we inspected underlying contractual terms used in sales discounts and rebates calculations. We compared the sales rebates and discounts recognised during the year with that of the previous year to identify whether there were any unusual trends in amounts and timing of sales rebates and discounts recognised in each period. We compared the sales rebates and discounts accrued as at the year end with the post-year-end settled amount to determine whether the sales rebates and discounts had been adequately and appropriately accrued. We also tested a sample of credit notes issued post year end to determine whether the discounts and rebates to which they related have been appropriately accrued for. Based upon the above, we found that management had taken reasonable estimates and judgements that were supported by the available evidence in respect of the relevant sales rebates and discount.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the "Corporate Information", "Highlights of the Year 2017", "Chairman's Statement", "Business Segments Overview", "Management Discussion and Analysis", "Corporate Social Responsibility", "Awards and Recognitions", "Directors and Senior Management", "Directors' Report", "Corporate Governance Report" and "Five-Year Financial Summary" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the "2017 Environmental, Social and Governance Report", which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the "2017 Environmental, Social and Governance Report", if we conclude that there is a material misstatement therein, we are required to communicate the matter to audit committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ivan Au.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Revenue	5, 6	**741,859**	715,207
Cost of sales	8	**(278,878)**	(274,276)
Gross profit		**462,981**	440,931
Other income	7	**713**	1,245
Other (losses)/gains, net	7	**(106)**	7,945
Selling and distribution costs	8	**(78,120)**	(76,506)
Administrative and operating expenses	8	**(376,323)**	(367,422)
Operating profit		**9,145**	6,193
Finance income	10	**133**	202
Finance costs	10	**(937)**	(2,027)
Finance costs, net	10	**(804)**	(1,825)
Profit before income tax		**8,341**	4,368
Income tax (expense)/credit	11	**(339)**	4,275
Profit for the year		**8,002**	8,643
Profit/(loss) attributable to:			
Owners of the Company		**8,106**	8,961
Non-controlling interests		**(104)**	(318)
		8,002	8,643
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
— Currency translation differences		**7,252**	(4,110)
Other comprehensive income/(loss), net of tax		**7,252**	(4,110)
Total comprehensive income for the year		**15,254**	4,533
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**15,021**	5,177
Non-controlling interests		**233**	(644)
		15,254	4,533
Earnings per share attributable to owners of the Company			
— Basic and diluted (HK cents per share)	12	**1.24**	1.37

The notes on pages 57 to 117 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	15(a)	**58,054**	48,387
Property, plant and equipment	15(b)	**236,843**	226,990
Prepayments and deposits	20	**28,273**	17,507
Deferred income tax assets	25	**8,753**	9,016
		331,923	301,900
Current assets			
Inventories	17	**29,899**	27,921
Trade receivables	19	**54,935**	53,659
Prepayments, deposits and other receivables	20	**30,603**	32,942
Amount due from a related company	31	**690**	690
Tax recoverable		**986**	4,400
Pledged bank deposits	21	**1,070**	1,066
Cash and cash equivalents	21	**113,588**	131,160
		231,771	251,838
Total assets		**563,694**	553,738
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	**6,559**	6,559
Share premium	22	**214,999**	214,999
Reserves		**44,655**	34,619
		266,213	256,177
Non-controlling interests		**1,038**	805
Total equity		**267,251**	256,982

	Note	As at 31 December 2017 HK$'000	2016 HK$'000
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs	28	**4,994**	3,521
Deferred income tax liabilities	25	**441**	378
Bank borrowings	30	**31,659**	44,942
		37,094	48,841
Current liabilities			
Trade payables	26	**28,378**	23,558
Accruals and other payables	27	**59,640**	62,416
Provision for reinstatement costs	28	**1,529**	2,877
Receipts in advance	29	**146,663**	133,329
Bank borrowings	30	**20,783**	22,813
Taxation payable		**2,356**	2,922
		259,349	247,915
Total liabilities		**296,443**	296,756
Total equity and liabilities		**563,694**	553,738
Net current (liabilities)/assets		**(27,578)**	3,923
Total assets less current liabilities		**304,345**	305,823

The notes on pages 57 to 117 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 52 to 117 were approved by the Board of Directors on 27 March 2018 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 2017

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve (Note 23) HK$'000	Share based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings (Note 23) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
For the year ended 31 December 2016									
Balance at 1 January 2016	6,559	214,999	8,123	5,421	21	20,862	255,985	2,821	258,806
Comprehensive income/(loss)									
Profit/(loss) for the year	–	–	–	–	–	8,961	8,961	(318)	8,643
Other comprehensive loss									
Currency translation differences	–	–	–	–	(3,784)	–	(3,784)	(326)	(4,110)
Total comprehensive income/(loss) for the year	–	–	–	–	(3,784)	8,961	5,177	(644)	4,533
Transaction with owners									
2015 final and special dividends	–	–	–	–	–	(4,985)	(4,985)	(1,372)	(6,357)
Balance at 31 December 2016	6,559	214,999	8,123	5,421	(3,763)	24,838	256,177	805	256,982
For the year ended 31 December 2017									
Balance at 1 January 2017	6,559	214,999	8,123	5,421	(3,763)	24,838	256,177	805	256,982
Comprehensive income/(loss)									
Profit/(loss) for the year	–	–	–	–	–	8,106	8,106	(104)	8,002
Other comprehensive Income									
Currency translation differences	–	–	–	–	6,915	–	6,915	337	7,252
Total comprehensive income for the year	–	–	–	–	6,915	8,106	15,021	233	15,254
Transaction with owners									
2016 final and special dividends	–	–	–	–	–	(4,985)	(4,985)	–	(4,985)
Balance at 31 December 2017	6,559	214,999	8,123	5,421	3,152	27,959	266,213	1,038	267,251

The notes on pages 57 to 117 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**46,818**	47,803
Income tax refund/(paid)		**2,435**	(1,796)
Net cash generated from operating activities		**49,253**	46,007
Cash flows from investing activities			
Purchase of property, plant and equipment		**(39,623)**	(21,413)
Purchase of land use rights		**(9,372)**	(17,445)
Proceeds from disposal of property, plant and equipment	32(b)	**53**	–
Proceeds from disposal of investment property		**–**	9,000
Reinstatement costs paid for shop and office premises		**(225)**	(312)
Repayment from a related company		**–**	132
(Increase)/decrease in pledged bank deposits		**(4)**	13,941
Decrease in bank deposit with original maturity over 3 months		**–**	4,097
Interest received	10	**133**	202
Net cash used in investing activities		**(49,038)**	(11,798)
Cash flows from financing activities			
Proceeds from bank borrowings	32(c)	**15,000**	86,000
Repayment of bank borrowings	32(c)	**(30,313)**	(103,828)
Repayment of obligation under finance leases	32(c)	**–**	(1,890)
Dividend paid to the Company's shareholders	13	**(4,985)**	(4,985)
Dividend paid to non-controlling interests		**–**	(1,372)
Interest paid	10	**(1,573)**	(2,027)
Net cash used in financing activities		**(21,871)**	(28,102)
Net (decrease)/increase in cash and cash equivalents		**(21,656)**	6,107
Effect of currency translation difference		**4,084**	(2,357)
Cash and cash equivalents at beginning of year		**131,160**	127,410
Cash and cash equivalents at end of year	21	**113,588**	131,160

The notes on pages 57 to 117 are an integral part of these 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 consolidated financial statements) (the "Business").

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

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated and have been approved for issue by the Board of Directors on 27 March 2018.

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 disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). They have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to consolidated financial statements, are disclosed in Note 4.

The Group's current liabilities exceeded its current assets by HK$27,578,000 as at 31 December 2017. Sales of prepaid coupons to customers resulted in non-refundable receipts in advance included in current liabilities. Receipts in advance will reduce gradually over the time of each redemption by customers and are not expected to be settled in cash under normal business circumstances. Excluding the non-refundable receipts in advance of HK$146,663,000 (31 December 2016: $133,329,000) included in current liabilities, the Group would have net current assets of HK$119,085,000 as at 31 December 2017 (31 December 2016: $137,252,000). Based on the Group's history of its operating performance, availability of banking facilities and its expected future working capital requirements, the directors consider that there are sufficient financial resources available to the Group to meet its obligations as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

Amendments to HKAS 7	Statement of cash flows
Amendments to HKAS 12	Income taxes
Amendments to HKFRS 12	Disclosure of interest in other entities

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

The following are new standards, amendments and interpretations that have been issued but not yet effective for the annual accounting period beginning 1 January 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to HKAS 28	Investments in associates and joint ventures	1 January 2018
Amendments to HKAS 40	Transfers of investment property	1 January 2018
Amendments to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018 or when the entity first applies HKFRS 9
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKAS 12	Income Taxes	1 January 2019
Amendments to HKAS 23	Borrowing Costs	1 January 2019
Amendments to HKFRS 3	Business Combination	1 January 2019
Amendments to HKFRS 11	Joint Arrangements	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by the HKICPA

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses "ECL" model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Management has assessed the effect of applying the new standard on the Group's consolidated financial statements and does not expect any significant impact.

Date of adoption of Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach:

(1) Identify the contract(s) with customer;

(2) Identify separate performance obligations in a contract;

(3) Determine the transaction price;

(4) Allocate transaction price to performance obligations; and

(5) Recognise revenue when performance obligation is satisfied.

The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings processes to an 'asset-liability' approach based on transfer of control.

HKFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's consolidated financial statements and has identified the following areas that will be affected.

Previously, any residual receipts in advance from the sales of pre-paid coupons and credits is fully recognised in consolidated statement of comprehensive income upon expiry. Under HKFRS 15, such non-redeemed pre-paid coupons and credits are referred to as breakage. An expected breakage amount in receipts in advance is determined by historical experience and is recognised as revenue in proportion to the pattern of redemption by the customers.

The application of HKFRS 15 may further result in the identification of separate performance obligations in relation to the customer loyalty programme. Management has assessed the relative impact and does not expect a material impact on the Group's consolidated financial statements.

Date of adoption of Group

Mandatory for financial years' commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the accumulative impact of the adoption will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

HKFRS 16 "Leases"

HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 'Leases', and related interpretations.

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$198,626,000 (Note 34). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

In addition to the aforementioned HKFRS 9, HKFRS 15 and HKFRS 16, the directors of the Company are also in the process of assessing the financial impact of the adoption of the above new standards, amendments to standards. The Group will adopt the new standards and amendments to standards when they become effective.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(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 consolidated statement of comprehensive income.

Intra-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.

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 consolidated statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

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 consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges. All foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other (losses)/gains, net'.'

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 comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting currency translation differences are recognised 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 the consolidated statement of comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred.

Construction in progress is stated at cost less accumulated impairment losses. Direct and indirect costs relating to the construction in progress, including borrowing costs during the construction period, are capitalised as the costs of the assets. Cost on completed construction work is then transferred to appropriate category of property, plant and equipment.

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	5 to 10 years or remaining period of the lease, whichever is shorter
Furniture and fixtures	5 to 10 years
Plant and machinery	2 to 14 years
Motor vehicles	3 to 10 years
Office and computer equipment	2 to 10 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 comprehensive income.

2.6 Leasehold land and land use rights

The leasehold land and land use rights have finite useful life and are carried at cost less accumulated amortisation. Amortisation are calculated using the straight-line method to allocate the costs of leasehold land over their terms.

2.7 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 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', 'amount due from a related company', 'pledged bank deposits' and 'cash and cash equivalents' in the consolidated statement of financial position (Notes 2.13 and 2.14).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets (Continued)

2.8.2 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.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount 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.

2.10 Impairment of financial assets

The Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan 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 consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for goods or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 Cash and cash equivalents

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.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

2.17 Deferred revenue

Deferred revenue represents outstanding customer loyalty credits, which are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the expected award credits redeemed and deferred. This is then recognised as revenue over the period that the award credits are redeemed or upon the expiry date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet 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 balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet 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 consolidated statement of comprehensive income as they become payable in accordance with the rules of the central pension schemes.

The Group pays contributions to an independently administered fund on a mandatory basis in Hong Kong. The Group has no further payment obligations once the contributions have been paid. The contributions to the defined contribution retirement scheme are expensed as incurred. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

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

The assets of the fund are held separately from those of the Group in the independently administered fund.

(c) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Share based payments

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

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Share based payments (Continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, 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.

2.21 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 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 Group; 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.

The Group has various sales rebates and discounts programmes with third party customers and wholesalers in Hong Kong and the PRC. Sales rebates and discounts are estimated and reassessed at each balance sheet date with reference to the latest available sales contracts and previous constructive obligation established with the customers. Sales rebates and discounts granted to customers are deducted from gross sales in arriving at revenue.

(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) Rental income from investment properties are recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

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

2.24 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 comprehensive income on a straight-line basis over the period of lease.

2.25 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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 2017 and 2016, the Group's exposure to foreign exchange risk was not considered to be significant.

(ii) Cash flow interest rate risk

The Group's cash flow interest rate risk arises from bank balances and bank borrowings 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 2017, 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$317,000 higher/lower (profit for the year for the year ended 31 December 2016: HK$328,000 higher/lower), respectively, mainly attributable to the Group's exposure to interest rates on its variable rate bank balances and bank borrowings.

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, amount due from a related party, pledged bank deposit and cash and cash equivalents.

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 2017, top 5 customers of the Group accounted for approximately 53% (2016: 53%), of 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 balance sheet date to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balance within 12 months equal their carrying balances as impact at discounting is not significant.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	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 2017				
Trade payables	**28,378**	**–**	**–**	**28,378**
Accruals and other payables	**33,872**	**–**	**–**	**33,872**
Bank borrowings	**21,377**	**18,220**	**14,286**	**53,883**
	83,627	**18,220**	**14,286**	**116,133**
As at 31 December 2016				
Trade payables	23,558	–	–	23,558
Accruals and other payables	35,561	–	–	35,561
Bank borrowings	23,464	21,373	24,757	69,594
	82,583	21,373	24,757	128,713

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 interest bearing borrowings 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 balance sheet date.

The Group is in compliance with all banking covenants as at 31 December 2016 and 2017 and during the years.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 HK$'000	2016 HK$'000
Bank borrowings (Note 30)	**52,442**	67,755
Less: Pledged bank deposits and cash and cash equivalents (Note 21)	**(114,658)**	(132,226)
Net cash	**(62,216)**	(64,471)
Total equity	**267,251**	256,982
Total capital	**205,035**	192,511
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, amount due from a related company, pledged bank deposits and cash and cash equivalents, and financial liabilities, including trade payables, accruals and other payables and bank borrowings, approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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 balance sheet 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.

(f) Provision for reinstatement costs

Provision for reinstatement costs is estimated and reassessed at each balance sheet 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) Sales rebates and discounts

Sales rebates and discounts are estimated and reassessed at each balance sheet date with reference to the latest available sales contracts negotiated with the customers and previous constructive obligation established with the customers. Estimation based on current market information may vary over time and/or among customers, which could differ from actual amount upon mutual agreement with customers. Adjustments between gross sales and net sales, as described in note 2.23(a), are recognised either as accruals or as reductions in trade receivables, depending on their nature.

During the year, sales rebates and discounts granted to customers results in deduction to gross sales in arriving at revenue. As at 31 December 2017, unsettled balances for sales rebates and discounts of HK$1,314,000 (2016: HK$2,397,000) and HK$16,229,000 (2016: HK$17,814,000) are recognised as accruals and as a reduction against trade receivables respectively.

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, inventories, trade receivables, prepayments, deposits and other receivables, pledged bank deposits and cash and cash equivalents. They exclude amount due from a related company, tax recoverable, deferred income tax assets and assets used for corporate functions.

Capital expenditure comprises additions to leasehold land, land use rights and property, plant and equipment for the years ended 31 December 2017 and 2016.

Geographically, management considers the distribution of bottled drinks, other herbal products, soups and snacks through retail and wholesale channels 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, gain on disposal of an investment property, finance income and costs and income tax expense are not included in segment results.

5 SEGMENT INFORMATION (Continued)

The segment information provided to the executive directors for the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December 2017			
	Hong Kong Retail HK$'000	PRC Retail HK$'000	Wholesale HK$'000	Total HK$'000
Segment revenue	518,767	12,160	217,854	748,781
Less: Inter-segment revenue	(2,618)	(77)	(4,227)	(6,922)
Revenue from external customers	516,149	12,083	213,627	741,859
Segment results	50,721	(2,192)	6,493	55,022
Corporate expenses				(45,877)
Finance costs, net				(804)
Profits before income tax				8,341
Income tax expense				(339)
Profit for the year				8,002
Other segment items:				
Capital expenditure	9,882	660	36,783	47,325
Depreciation and amortisation	21,683	769	8,412	30,864
Provision for impairment on trade receivables	24	–	–	24
Interest income	45	13	75	133

5 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2016			
	Hong Kong Retail HK$'000	PRC Retail HK$'000	Wholesale HK$'000	Total HK$'000
Segment revenue	519,286	14,463	201,379	735,128
Less: Inter-segment revenue	(15,321)	–	(4,600)	(19,921)
Revenue from external customers	503,965	14,463	196,779	715,207
Segment results	63,356	(3,808)	(19,852)	39,696
Corporate expenses				(41,730)
Gain on disposal of an investment property				8,227
Finance costs, net				(1,825)
Profits before income tax				4,368
Income tax credit				4,275
Profit for the year				8,643
Other segment items:				
Capital expenditure	12,377	567	24,219	37,163
Depreciation and amortisation	25,337	1,403	7,066	33,806
Impairment losses on property, plant and equipment	–	169	–	169
Provision for impairment on trade receivables	480	–	5,062	5,542
Interest income	124	6	72	202

5 SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2017 and 2016 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 2017					
Segment assets	**333,376**	**7,063**	**208,122**	**(4,243)**	**544,318**
Amount due from a related company					**690**
Tax recoverable					**986**
Deferred income tax assets					**8,753**
Corporate assets					**8,947**
Total assets					**563,694**
As at 31 December 2016					
Segment assets	354,509	8,699	174,230	(3,723)	533,715
Amount due from a related company					690
Tax recoverable					4,400
Deferred income tax assets					9,016
Corporate assets					5,917
Total assets					553,738

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 2017, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2016: Nil).

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

	Year ended 31 December 2017 HK$'000	2016 HK$'000
Hong Kong	**632,672**	612,290
The PRC	**93,299**	85,809
Overseas	**15,888**	17,108
	741,859	715,207

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2016 and 2017.

5 SEGMENT INFORMATION (Continued)

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Hong Kong	**381,137**	421,660
The PRC	**163,181**	112,055
	544,318	533,715

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Hong Kong	**240,436**	245,585
The PRC	**82,734**	47,299
	323,170	292,884

6 REVENUE

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

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Sale of goods	**721,983**	696,592
Revenue recognised upon expiry of pre-paid coupons and cards (Note 29)	**19,876**	18,615
	741,859	715,207

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

Other income

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Rental income	**–**	312
Franchise income	**–**	55
Rebate from utility company	**–**	460
Insurance claim	**408**	–
Others	**305**	418
	713	1,245

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

Other (losses)/gains, net

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Exchange difference	**10**	(102)
Losses on disposal of property, plant and equipment	**(116)**	(142)
Gain on disposal of an investment property	**–**	8,227
Others	**–**	(38)
	(106)	7,945

8 EXPENSES BY NATURE

		Year ended 31 December	
		2017	2016
	Note	**HK$'000**	HK$'000
Cost of inventories sold		**205,623**	199,974
Operating lease rental in respect of retail outlets			
— Minimum rental		**107,006**	98,722
— Contingent rental		**297**	338
Operating lease rental in respect of storage spaces and office premises		**21,054**	20,325
Advertising and promotional expenditure		**28,815**	33,458
Amortisation of leasehold land	15(a)	**1,416**	1,023
Depreciation of property, plant and equipment	15(b)	**29,448**	32,756
Depreciation of investment property	16	**–**	27
Communication and utilities		**34,683**	33,704
Employee benefit expenses (including directors' emoluments)	9	**236,064**	221,751
Reversal of provision for obsolete inventories	17	**(446)**	(50)
Provision for impairment on trade receivables	19	**24**	5,542
Impairment losses on property, plant and equipment	15(b)	**–**	169
Legal and professional fees		**3,811**	4,003
Auditors' remuneration			
— Audit services		**2,850**	2,848
— Non-audit services		**259**	273
Tools, repair and maintenance expenses		**9,825**	10,952
Transportation and distribution expenses		**34,329**	33,980
Others		**18,263**	18,409
Total cost of sales, selling and distribution costs and administrative and operating expenses		**733,321**	718,204

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Wages, salaries and bonuses	**216,042**	202,340
Medical and other employee benefits	**9,571**	9,395
Retirement benefit costs — defined contribution plans	**10,451**	10,016
	236,064	221,751

(a) Five highest paid individuals

For the year ended 31 December 2017, the five individuals whose emoluments were the highest in the Group include four directors (2016: four directors), whose emoluments are reflected in the analysis shown in Note 36. The emoluments paid/payable to the remaining individual (2016: one individual) are as follows:

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Wages, salaries and bonuses and benefits in kind	**982**	934
Bonuses	**140**	78
Retirement benefit costs — defined contribution plans	**18**	18
	1,140	1,030

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

The emoluments of this highest paid individual fall within the following band:

	Number of individuals	
	2017	2016
Emolument band		
HK$1,000,001 to HK$1,500,000	**1**	1

10 FINANCE COSTS, NET

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Finance income:		
— Interest income	**133**	202
Finance costs:		
— Interest expenses on borrowings	**(1,552)**	(1,957)
— Interest expenses on finance leases	**(21)**	(70)
	(1,573)	(2,027)
Amount capitalised (Note (a))	**636**	–
	(937)	(2,027)
Finance costs, net	**(804)**	(1,825)

Notes:

(a) The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the year, in this case 2.84% (2016: Nil).

11 INCOME TAX EXPENSE/(CREDIT)

Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% for the year ended 31 December 2017 (2016: 16.5%) on the estimated assessable profit for the year.

PRC Corporate Income Tax

The companies now comprising the Group incorporated in the PRC are subject to Corporate Income Tax ("CIT") in accordance with the Law of the PRC on Corporate Income Tax (the "CIT Law"). Under the CIT Law, the income tax rate applicable to the subsidiaries now comprising the Group is 25% (2016: 25%).

The amount of income tax expense/(credit) represents:

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Current tax:		
PRC CIT on profits for the year	**216**	929
Over-provision in prior years	**(206)**	(530)
Deferred income tax (Note 25)	**329**	(4,674)
Income tax expense/(credit)	**339**	(4,275)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the Group's subsidiaries as follows:

	Year ended 31 December	
	2017	2016
	HK$'000	HK$'000
Profit before income tax	**8,341**	4,368
Tax calculated at 16.5%	**1,376**	721
Effect of different tax rates applicable to subsidiaries in the respective locations	**(971)**	(1,669)
Income not subject to tax	**(69)**	(1,376)
Expenses not deductible for tax purposes	**1,799**	1,158
Utilisation of previously unrecognised tax loss	**5,553**	6,034
Tax loss not recognised	**(7,143)**	(5,288)
Recognition of previously unrecognised deferred tax loss	**–**	(3,325)
Over-provision of income tax expense in prior years	**(206)**	(530)
Income tax expense/(credit)	**339**	(4,275)

12 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2017	2016
Profit attributable to owners of the Company (HK$'000)	**8,106**	8,961
Weighted average number of ordinary shares for the calculation of basic earnings per share (thousands)	**655,944**	655,944
Earnings per share attributable to owners of the Company — Basic earnings per share (HK cents)	**1.24**	1.37
— Diluted earnings per share (HK cents)	**1.24**	1.37

(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. As at 31 December 2016, the Group had share options which may result in dilutive potential ordinary shares. Its calculation is done by determining 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. There were no outstanding share options as at 31 December 2017.

Diluted earnings per share for the year ended 31 December 2017 and 2016 equal basic earnings per share as the exercise of the outstanding share options would be anti-dilutive.

13 DIVIDENDS

	2017 HK$'000	2016 HK$'000
Dividends attributable to the year		
Proposed final dividend of HK0.37 cent (2016: HK0.41 cent) per ordinary share	**2,427**	2,689
Proposed special dividend of HK0.31 cent (2016: HK0.35 cent) per ordinary share	**2,033**	2,296
	4,460	4,985
Dividends paid during the year	**4,985**	4,985

A final dividend and a special dividend in respect of the year ended 31 December 2017 of HK0.37 cent and HK0.31 cent, per ordinary share respectively, amounting to a total dividend of HK$4,460,000 with dividend payout ratio of 0.55 was proposed by the Board of Directors which have to be approved by shareholders in the forthcoming annual general meeting. These proposed dividends are 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 2018.

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	Issued and paid up/ registered capital	Effective interest held as at 2017	Effective interest held as at 2016
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						
Apace Logistic and Supply Company Limited	Hong Kong, 26 April 2017	Logistics	Limited liability company	HK$10,000	60%	–
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 & trading of 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 drinks	Limited liability company	HK$6,000,000	100%	100%
Hung Fook Tong Real Property Limited (Company applied deregistration on 27 November 2017)	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 2016)	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	Investment holding	Limited liability company	HK$100	100%	100%

14 SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/ registered capital	Effective interest held as at 2017	2016
Indirectly held by the Company (Continued)						
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 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	RMB8,500,000	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%
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	RMB13,000,000	100%	100%

14 SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/ registered capital	Effective interest held as at 2017	2016
Indirectly held by the Company (Continued)						
Hung Fook Tong Herbal Tea and Food (Shanghai) Company Limited 鴻福堂涼茶食品（上海）有限公司	PRC, 8 September 2011	Wholesaling and retailing of herbal products	Limited liability company	RMB1,000,000	100%	100%
Ming Tong Catering Management (Shanghai) Company Limited 鳴堂餐飲管理（上海）有限公司	PRC, 12 September 2013	Inactive	Limited liability company	RMB1,000,000	100%	100%
Taclon Industries Limited ("Taclon")	Hong Kong, 15 December 1972	Manufacturing & wholesaling of herbal products 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	RMB10,000,000	100%	100%
Luck Access Investment Develop Limited	Hong Kong, 3 December 2013	Inactive	Limited liability company	HK$1	100%	100%
Gold Medal Development Limited	Hong Kong, 20 December 2013	Inactive	Limited liability company	HK$6,500,000	100%	100%
Hung Tong Catering Management (Shanghai) Company Limited 鴻堂餐飲管理（上海）有限公司	PRC, 17 June 2014	Inactive	Limited liability company	RMB5,000,000	100%	100%
Hung Fook Tong (Kaiping) Health Food Company Limited 鴻福堂（開平）保健食品有限公司	PRC, 7 November 2016	Manufacturing & wholesaling of herbal products and snacks	Limited liability company	RMB130,000,000	100%	100%

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 interests as at 31 December 2017 amounted to HK$1,038,000 (2016: HK$805,000) and are related to Goldmark Plastic Bottle Manufacturing Limited and Apace Logistics and Supply Company Limited, which the directors consider not material to the Group.

15 LEASEHOLD LAND AND PROPERTY, PLANT AND EQUIPMENT

(a) Leasehold land and land use rights

The Group's interest in leasehold land and land use rights represent prepaid operating lease payments in Hong Kong and the PRC with 50 years terms and their net book values are analysed as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	48,387	31,965
Additions	9,798	17,445
Amortisation (Note 8)	(1,416)	(1,023)
Exchange difference	1,285	–
At 31 December	58,054	48,387

Amortisation of leasehold land and land use rights of HK$1,416,000 for the year ended 31 December 2017 (2016: HK$1,023,000) has been charged in 'administrative and operating expenses'.

(b) Property, plant and equipment

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office and computer and equipment HK$'000	Total HK$'000
Year ended 31 December 2016								
Opening net book amount	130,369	–	30,922	6,751	66,488	573	6,999	242,102
Additions	102	–	8,227	316	9,490	300	1,283	19,718
Disposals (Note 32(b))	–	–	–	(2)	(29)	–	(111)	(142)
Impairment (Note 8)	–	–	(169)	–	–	–	–	(169)
Depreciation (Note 8)	(4,562)	–	(12,498)	(852)	(11,948)	(259)	(2,637)	(32,756)
Exchange difference	(47)	–	(44)	–	(1,586)	1	(87)	(1,763)
Closing net book amount	125,862	–	26,438	6,213	62,415	615	5,447	226,990
At 31 December 2016								
Cost	136,371	–	95,127	13,704	130,034	1,519	18,727	395,482
Accumulated depreciation and impairment	(10,509)	–	(68,689)	(7,491)	(67,619)	(904)	(13,280)	(168,492)
Net book amount	125,862	–	26,438	6,213	62,415	615	5,447	226,990

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

(b) Property, plant and equipment (Continued)

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Office and computer and equipment HK$'000	Total HK$'000
Year ended 31 December 2017								
Opening net book amount	125,862	–	26,438	6,213	62,415	615	5,447	226,990
Additions	362	23,943	5,639	86	4,636	1,583	1,278	37,527
Disposals (Note 32(b))	–	–	–	(14)	(137)	–	(18)	(169)
Depreciation (Note 8)	(4,627)	–	(8,743)	(833)	(12,423)	(552)	(2,270)	(29,448)
Exchange difference	43	–	32	–	1,775	–	93	1,943
Closing net book amount	121,640	23,943	23,366	5,452	56,266	1,646	4,530	236,843
At 31 December 2017								
Cost	136,802	23,943	98,559	13,771	135,530	3,108	19,846	431,559
Accumulated depreciation and impairment	(15,162)	–	(75,193)	(8,319)	(79,264)	(1,462)	(15,316)	(194,716)
Net book amount	121,640	23,943	23,366	5,452	56,266	1,646	4,530	236,843

Depreciation of HK$8,658,000 (2016: HK$8,411,000) has been charged in 'cost of sales', HK$20,720,000 (2016: HK$24,114,000) in 'administrative and operating expenses' and HK$70,000 (2016: HK$231,000) in 'selling and distribution costs'.

16 INVESTMENT PROPERTY

	2017 HK$'000	2016 HK$'000
At 1 January		
Cost	–	2,000
Accumulated depreciation	–	(1,200)
Net book amount	–	800
Year ended 31 December		
Opening net book amount	–	800
Disposal	–	(773)
Depreciation (Note 8)	–	(27)
Closing net book amount	–	–
At 31 December		
Cost	–	–
Accumulated depreciation	–	–
Net book amount	–	–

Investment property situated in Hong Kong was held under lease of over 50 years and rented out under operating lease. The investment property was sold to an independent third party in December 2016 at a consideration of HK$9,000,000. A gain of HK$8,227,000 has been recognised in "other (losses)/gains, net" for the year ended 31 December 2016.

Depreciation of HK$27,000 have been charged in 'administrative and operating expenses' for the year ended 31 December 2016.

17 INVENTORIES

	As at 31 December	
	2017 HK$'000	2016 HK$'000
Raw materials	12,157	11,592
Work in process	5,830	5,029
Finished goods	12,300	12,176
	30,287	28,797
Less: Provision for obsolete inventories	(388)	(876)
	29,899	27,921

17 INVENTORIES (Continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**876**	926
Reversal of provision for obsolete inventories (Note 8, 32(a))	**(446)**	(50)
Written off of provision for obsolete inventories	**(42)**	–
At 31 December	**388**	876

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to HK$201,077,000 (2016: HK$197,043,000). There was no inventory written down during the year (2016: Nil).

18 FINANCIAL INSTRUMENTS BY CATEGORIES

	Note	As at 31 December 2017 HK$'000	2016 HK$'000
Assets as per consolidated statement of financial position			
Loans and receivables			
— Trade receivables	19	**54,935**	53,659
— Deposits and other receivables (excluding prepayments and value-added tax recoverable)		**39,335**	35,785
— Amount due from a related company	31	**690**	690
— Pledged bank deposits	21	**1,070**	1,066
— Cash and cash equivalents	21	**113,588**	131,160
Liabilities as per consolidated statement of financial position			
Other financial liabilities subsequently measured at amortised cost			
— Trade payables	26	**28,378**	23,558
— Accruals and other payables (excluding non-financial liabilities and accruals for employee benefit expenses)		**33,872**	35,561
— Bank borrowings	30	**52,442**	67,755

19 TRADE RECEIVABLES

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Trade receivables	**57,348**	59,199
Less: Provision for impairment of trade receivables	**(2,413)**	(5,540)
Trade receivables, net	**54,935**	53,659

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 31 December 2017 and 2016, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Less than 30 days	**23,320**	23,665
31-90 days	**26,459**	26,520
Over 90 days	**5,156**	3,474
	54,935	53,659

As at 31 December 2017, trade receivables of HK$20,353,000 (2016: HK$17,220,000) 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:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Overdue		
Less than 30 days	**11,645**	9,151
31-90 days	**5,028**	4,975
Over 90 days	**3,680**	3,094
	20,353	17,220

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
HK$	**40,254**	42,989
RMB	**14,681**	10,670
	54,935	53,659

19 TRADE RECEIVABLES (Continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	**5,540**	228
Provision for impairment of trade receivables (Note 8)	**24**	5,542
Receivables written off during the year as uncollectible	**(3,268)**	–
Exchange difference	**117**	(230)
At 31 December	**2,413**	5,540

The creation and release of provision for impaired receivables have been included in 'administrative and operating expenses' in the consolidated statement of comprehensive income.

The Group does not hold any collateral as security.

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2017 HK$'000	2016 HK$'000
Non-current portion		
Prepayments for property, plant and equipment	**4,425**	1,078
Rental and other deposits	**23,848**	16,429
Total	**28,273**	17,507
Current portion		
Prepayments	**5,917**	4,845
Rental and other deposits	**13,229**	17,328
Value-added tax recoverable	**9,199**	8,741
Amount due from a non-controlling interest	**1,000**	1,000
Other receivables	**1,258**	1,028
Total	**30,603**	32,942

The amount due from a non-controlling interest is unsecured, non-interest bearing and repayable on demand (Note 31).

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
HK$	**33,623**	30,366
RMB	**14,911**	14,160
	48,534	44,526

21 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Pledged bank deposits (Note (a))	**1,070**	1,066
Cash and cash equivalents	**113,588**	131,160
Total	**114,658**	132,226

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 and cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
HK$	**75,359**	106,390
USD	**201**	206
RMB	**39,077**	25,604
Others	**21**	26
	114,658	132,226

(c) Significant restrictions

Cash and cash equivalents and pledged deposits of HK$34,317,000 (2016: HK$21,512,000) 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.

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Nominal value of ordinary shares HK$
Authorised:		
At 31 December 2016 and 31 December 2017	1,000,000,000	10,000,000

	Number of shares	Nominal value of ordinary shares HK$	Share premium HK$
Issued and fully paid:			
At 1 January 2016, 31 December 2016 and 31 December 2017	655,944,000	6,559,440	214,998,135

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 surplus reserve

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 2017, retained earnings included statutory reserves fund amounting to HK$1,308,000 (2016: HK$1,178,000).

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 is HK$1.0;

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

(b) Duration of the share option schemes

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

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

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

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

	2017		2016	
	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**	**9,984**	1.0	10,528
Granted	**1.0**	**–**	1.0	–
Exercised	**1.0**	**–**	1.0	–
Cancelled	**1.0**	**–**	1.0	–
Lapsed	**1.0**	**(24)**	1.0	(544)
Expired	**1.0**	**(9,960)**	–	–
At 31 December		**–**		9,984

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.

24 SHARE BASED PAYMENTS (Continued)

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 As at 31 December 2017 (in thousands)	As at 31 December 2016 (in thousands)
4 July 2017	1.0	–	9,984

No options where exercised during the year ended 31 December 2017.

During the year ended 31 December 2017, 24,000 share options (2016, 544,000 share options) were lapsed as a result of the cessation of employment of certain employees. The remaining 9,960,000 share options were expired on 4 July 2017.

For Share Option Scheme, there was no share option granted after approval till 31 December 2017.

25 DEFERRED INCOME TAX

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

	As at 31 December 2017 HK$'000	2016 HK$'000
Deferred income tax assets		
— to be recovered after more than 12 months	**17,874**	19,108
— to be recovered within 12 months	**62**	59
	17,936	19,167
Deferred income tax liabilities		
— to be recovered after more than 12 months	**9,624**	10,529

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 2017 HK$'000	2016 HK$'000
Deferred income tax assets – net	**8,753**	9,016
Deferred income tax liabilities – net	**441**	378

25 DEFERRED INCOME TAX (Continued)

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

	HK$'000
At 1 January 2016	3,964
Credit to the consolidated statement of comprehensive income (Note 11)	4,674
At 31 December 2016	8,638
At 1 January 2017	**8,638**
Charged to the consolidated statement of comprehensive income (Note 11)	**(329)**
Exchange difference	**3**
At 31 December 2017	**8,312**

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 2016	4,215	10,224	14,439
Credited to consolidated statement of comprehensive income	1,417	3,311	4,728
At 31 December 2016	5,632	13,535	19,167
At 1 January 2017	**5,632**	**13,535**	**19,167**
Charged to consolidated statement of comprehensive income	**(350)**	**(884)**	**(1,234)**
Exchange difference	**–**	**3**	**3**
At 31 December 2017	**5,282**	**12,654**	**17,936**

25 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities

	Accumulated tax depreciation and others HK$'000
At 1 January 2016	(10,475)
Charged to consolidated statement of comprehensive income	(54)
At 31 December 2016	(10,529)
At 1 January 2017	**(10,529)**
Credited to consolidated statement of comprehensive income	**905**
At 31 December 2017	**(9,624)**

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$22,707,000 as at 31 December 2017 (2016: HK$24,297,000), in respect of tax losses in Hong Kong and in the PRC.

The Group has unrecognised tax losses of HK$78,207,000 as at 31 December 2017 (2016: HK$107,130,000), to carry forward against future profit in Hong Kong. These tax losses afore-mentioned are subject to final approval by the Inland Revenue Department in Hong Kong and can be carried forward indefinitely.

The Group has unrecognised tax losses of HK$39,213,000 as at 31 December 2017 (2016: HK$26,483,000), to carry forward against future profit in the PRC. These tax losses are subject to final approval by the State Administration of Taxation in the PRC and will be expired in the following years:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Expiry in year:		
2017	**–**	1,390
2018	**362**	1,548
2019	**5,324**	5,625
2020	**4,709**	4,383
2021	**13,389**	13,537
2022	**15,429**	–
	39,213	26,483

25 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities (Continued)

As at 31 December 2017 management is of the view that undistributed earnings of certain subsidiaries in the PRC totalling HK$9,840,000 (2016: HK$8,286,000), are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of HK$492,000 (2016: HK$414,000) have not been recognised as at 31 December 2017, 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 PAYABLES

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Trade payables	**28,378**	23,558

As at 31 December 2017, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
0 to 30 days	**14,688**	11,898
31 to 60 days	**11,150**	10,298
61 to 90 days	**2,457**	1,193
Over 90 days	**83**	169
	28,378	23,558

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
HK$	**16,165**	13,363
RMB	**12,213**	10,195
	28,378	23,558

27 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Accruals for employee benefit expenses	**23,188**	22,698
Accruals for marketing and promotional expenses	**1,461**	2,564
Accruals for sales rebate	**1,314**	2,397
Rental related expenses payable	**5,300**	5,136
Office and utilities expenses payable	**2,811**	2,786
Deferred revenue	**1,266**	1,760
Consideration payable for property, plant and equipment acquired	**4,189**	3,468
Accruals for transportation and delivery charges	**5,846**	8,116
Accruals for audit fee	**2,557**	2,719
Other accruals and other payables	**11,708**	10,772
	59,640	62,416

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
HK$	**46,553**	51,441
RMB	**13,087**	10,975
	59,640	62,416

28 PROVISION FOR REINSTATEMENT COSTS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Non-current		
Provision for reinstatements costs	**4,994**	3,521
Current		
Provision for reinstatements costs	**1,529**	2,877
	6,523	6,398

28 PROVISION FOR REINSTATEMENT COSTS (Continued)

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

	2017 HK$'000	2016 HK$'000
At 1 January	6,398	6,260
Additional provision during the year	320	450
Utilisation	(195)	(312)
At 31 December	6,523	6,398

29 RECEIPTS IN ADVANCE

	As at 31 December	
	2017 HK$'000	2016 HK$'000
Receipts in advance	146,663	133,329

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

	Note	2017 HK$'000	2016 HK$'000
At 1 January		133,329	122,743
Receipts from sales of pre-paid coupons and cards during the year		306,629	295,348
Revenue recognised upon the redemption of products by customers	(a)	(273,566)	(265,784)
Revenue recognised upon expiry of pre-paid coupons and cards (Note 6)	(b)	(19,876)	(18,615)
Exchange differences		147	(363)
At 31 December		146,663	133,329

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 cards expired in accordance with the contractual periods stipulated in the respective terms and conditions.

30 BANK BORROWINGS

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Bank loans:		
Portion due for repayment within 1 year	**20,783**	22,813
Portion due for repayment after 1 year but within 5 years without repayment on demand clause	**31,659**	44,942
	52,442	67,755

Bank loans due for repayment, based on the scheduled repayment dates set out in the loan agreements are as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Bank loans:		
Within 1 year	**20,783**	22,813
Between 1 and 2 years	**17,718**	20,782
Between 2 and 5 years	**13,941**	24,160
	52,442	67,755

As at 31 December 2017 and 2016, the bank borrowings facilities granted to the Group were secured by the pledge of time deposit (Note 21).

The carrying amounts of bank borrowings approximate their fair values.

The weighted average interest rate is 2.9% as at 31 December 2017 (2016: 2.9%).

The carrying amounts of the Group's bank borrowings are denominated in HK$.

31 RELATED PARTIES BALANCES AND TRANSACTIONS

The Company is controlled by Think Expert Investments Limited, YITAO Investments Limited and Prestigious Time Limited (all incorporated in the British Virgin Islands), which collectively owns 61.54% of the Company's shares as at 31 December 2017. The remaining 38.46% of the shares are widely held. The ultimate controlling parties of Think Expert Investments Limited, YITAO Investments Limited and Prestigious Time Limited are Ms. Wong Pui Chu, Mr. Tse Po Tat and Mr. Kwan Wang Yung, 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

— Aqua Pure Distilled Water Company Limited

Amount due from a related company

The amount due from a related company is unsecured, interest-free and repayable on demand.

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Balance included in current portion – Non-trade		
Aqua Pure Distilled Water Company Limited	**690**	690

The amount due from the related party is denominated in HK$.

Save as disclosed, details of balance with other related party at the end of the reporting year are set out in Note 20 to the consolidated financial statements.

Related parties transactions

(a) Key management compensation

Key management includes directors (executive and non-executive) and senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Fees	**741**	720
Salaries, allowances and benefits in kind	**15,596**	14,092
Pension costs	**252**	252
	16,589	15,064

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Profit before income tax		**8,341**	4,368
Adjustments for:			
Interest income		**(133)**	(202)
Interest expenses on borrowings		**937**	2,027
Losses on disposal of property, plant and equipment	32(b)	**116**	142
Gain on disposal of an investment property	7	**–**	(8,227)
Amortisation of leasehold land	15(a)	**1,416**	1,023
Depreciation of property, plant and equipment	15(b)	**29,448**	32,756
Depreciation of investment properties	16	**–**	27
Provision of reinstatement costs		**30**	450
Reversal of provision of obsolete inventories	17	**(446)**	(50)
Provision of impairment loss on property, plant and equipment	15(b)	**–**	169
Provision of impairment loss on trade receivables	19	**24**	5,542
		39,733	38,025
Changes in working capital:			
(Increase)/decrease in inventories		**(1,532)**	2,231
(Increase)/decrease in trade receivables		**(1,300)**	5,119
Increase in prepayments, deposits and other receivables		**(5,080)**	(1,105)
Increase/(decrease) in trade payables		**4,820**	(5,367)
Increase in accruals and other payables and receipts in advance		**10,177**	8,900
Cash generated from operations		**46,818**	47,803

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

(b) Disposal of property, plant and equipment

	Note	Year ended 31 December 2017 HK$'000	2016 HK$'000
Property, plant and equipment			
Net book value	15(b)	**169**	142
Losses on disposal of property, plant and equipment	7	**(116)**	(142)
Proceeds from disposal of property, plant and equipment		**53**	–

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net (debt)/cash	Year ended 31 December 2017 HK$'000	2016 HK$'000
Cash and cash equivalents	**113,588**	131,160
Borrowings – repayable within one year (including overdraft)	**(20,783)**	(22,813)
Borrowings – repayable after one year	**(31,659)**	(44,942)
Net (debt)/cash	**61,146**	63,405
Cash and liquid investments	**113,588**	131,160
Gross debt – fixed interest rates	**(52,442)**	(67,755)
Gross debt – variable interest rates		
Net (debt)/cash	**61,146**	63,405

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

(c) Net debt reconciliation (Continued)

	Other assets	Liabilities from financing activities			
	Cash HK$'000	Finance leases due within 1 year HK$'000	Borrowing due within 1 year HK$'000	Borrowing due after 1 year HK$'000	Total HK$'000
Net (debt)/cash as at 1 January 2016	127,410	(1,890)	(47,861)	(37,722)	39,937
Cash flows	6,107	1,890	25,048	(7,220)	25,825
Foreign exchange adjustments	(2,357)	–	–	–	(2,357)
Net (debt)/cash as at 31 December 2016	**131,160**	**–**	**(22,813)**	**(44,942)**	**63,405**
Cash flows	**(21,656)**	**–**	**2,030**	**13,283**	**(6,343)**
Foreign exchange adjustments	**4,084**	**–**	**–**	**–**	**4,084**
Net (debt)/cash as at 31 December 2017	**113,588**	**–**	**(20,783)**	**(31,659)**	**61,146**

33 CONTINGENCIES 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 which the directors consider an outflow of resources is not probable.

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	
	2017	2016
	HK$'000	HK$'000
Not later than 1 year	**106,860**	87,192
Later than 1 year and no later than 5 years	**91,766**	75,667
	198,626	162,859

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 as follows:

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Contracted but not provided for		
Property, plant and equipment	**33,420**	2,784

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of Financial Position of the Company

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
ASSETS		
Non-current assets		
Investment in a subsidiary	**31,927**	31,927
Amounts due from subsidiaries	**193,183**	197,803
	225,110	229,730
Current assets		
Prepayments, deposits and other receivables	**300**	328
Tax recoverable	**–**	112
Cash and cash equivalents	**497**	663
	797	1,103
Total assets	**225,907**	230,833
EQUITY		
Share capital	**6,559**	6,559
Share premium	**214,999**	214,999
Reserves (Note (a))	**1,335**	6,355
Total equity	**222,893**	227,913
LIABILITIES		
Current liabilities		
Accruals and other payables	**3,014**	2,920
Total equity and liabilities	**225,907**	230,833

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2018 and were signed on its behalf.

Tse Po Tat
Director

Kwan Wang Yung
Director

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

Note:

(a) Reserve movement of the Company

	Capital reserve HK$'000	Share based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2015 and 1 January 2016	107,992	5,421	(106,915)	6,498
Total comprehensive income				
Profit for the year	–	–	4,842	4,842
Transaction with owners				
2015 final and special dividends	–	–	(4,985)	(4,985)
At 31 December 2016	107,992	5,421	(107,058)	6,355
At 31 December 2016 and 1 January 2017	107,992	5,421	(107,058)	6,355
Total comprehensive income				
Loss for the year	–	–	(35)	(35)
Transaction with owners				
2016 final and special dividends	–	–	(4,985)	(4,985)
At 31 December 2017	107,992	5,421	(112,078)	1,335

36 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of the Directors is set out below respectively:

For the year ended 31 December 2017

	Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiaries undertaking:				
	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Employer's Contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive directors					
Ms. Wong Pui Chu	–	1,584	132	18	1,734
Mr. Tse Po Tat	–	1,584	132	18	1,734
Mr. Kwan Wang Yung	–	1,872	156	18	2,046
Dr. Szeto Wing Fu	–	1,800	150	18	1,968
	–	6,840	570	72	7,482
Independent non-executive Directors					
Mr. Kiu Wai Ming	246	–	–	–	246
Professor Sin Yat Ming	246	–	–	–	246
Mr. Andrew Look	246	–	–	–	246
	738	–	–	–	738

36 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

The remuneration of the Directors is set out below respectively:

For the year ended 31 December 2016

	Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiaries undertaking:				
	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefits-in-kind HK$'000	Discretionary bonuses HK$'000	Employer's Contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive directors					
Ms. Wong Pui Chu	–	1,320	110	18	1,448
Mr. Tse Po Tat	–	1,320	110	18	1,448
Mr. Kwan Wang Yung	–	1,560	130	18	1,708
Dr. Szeto Wing Fu	–	1,500	125	18	1,643
	–	5,700	475	72	6,247
Independent non-executive Directors					
Mr. Kiu Wai Ming	240	–	–	–	240
Professor Sin Yat Ming	240	–	–	–	240
Mr. Andrew Look	240	–	–	–	240
	720	–	–	–	720

There was no arrangement during the years ended 31 December 2017 and 2016 under which a Director waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the Directors as inducement to join or upon joining the Group, or as compensation for loss of office.

36 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' termination benefits

None of the Directors received any termination benefits during the years ended 31 December 2017 and 2016.

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

During the years ended 31 December 2017 and 2016, 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 2017 and 2016, there were 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 Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether the Group directly or indirectly, subsisted at the end of the 31 December 2017 and 2016 or at any time during the years ended 31 December 2017 and 2016.

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				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**741,859**	715,207	723,578	722,072	645,049
Profit/(loss) before income tax	**8,341**	4,368	10,635	(34,019)	48,521
Income tax (expense)/credit	**(339)**	4,275	(1,304)	(4,641)	(12,548)
Profit/(loss) for the year	**8,002**	8,643	9,331	(38,660)	35,973
Profit/(loss) attributable to:					
Owners/equity holders of the Company	**8,106**	8,961	8,707	(38,345)	34,468
Non-controlling interests	**(104)**	(318)	624	(315)	1,505
	8,002	8,643	9,331	(38,660)	35,973

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Non-current assets	**331,923**	301,900	298,921	319,461	127,522
Current assets	**231,771**	251,838	275,300	246,050	308,656
Total assets	**563,694**	553,738	574,221	565,511	436,178
Equity and liabilities					
Total equity	**267,251**	256,982	258,806	253,583	105,001
Non-current liabilities	**37,094**	48,841	42,872	20,714	27,350
Current liabilities	**259,349**	247,915	272,543	291,214	303,827
Total liabilities	**296,443**	296,756	315,415	311,928	331,177
Total equity and liabilities	**563,694**	553,738	574,221	565,511	436,178

Note: The summary of the consolidated results of the Group for the year ended 31 December 2013 and of the assets, equity and liabilities as at 31 December 2013 have been extracted from the Company's prospectus dated 23 June 2014. The consolidated results of the Group for the years ended 31 December 2014, 2015, 2016 and 2017 and the consolidated assets and liabilities of the Group as at 31 December 2014, 2015, 2016 and 2017 have been extracted from the Company's published audited financial statements.

HUNG FOOK TONG

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