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

ANNUAL REPORT 2018 年報

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CORPORATE INFORMATION

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

Executive Directors

Mr. TSE Po Tat *(Chairman)*
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)*
Dr. SZETO Wing Fu
Mr. Andrew LOOK
Professor SIN Yat Ming

STRATEGY AND DEVELOPMENT COMMITTEE

Dr. SZETO Wing Fu *(Chairman)*
Ms. WONG Pui Chu

AUTHORIZED REPRESENTATIVES

Dr. SZETO Wing Fu
Mr. LAU Siu Ki

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

PRINCIPAL 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 2018

JAN-FEB

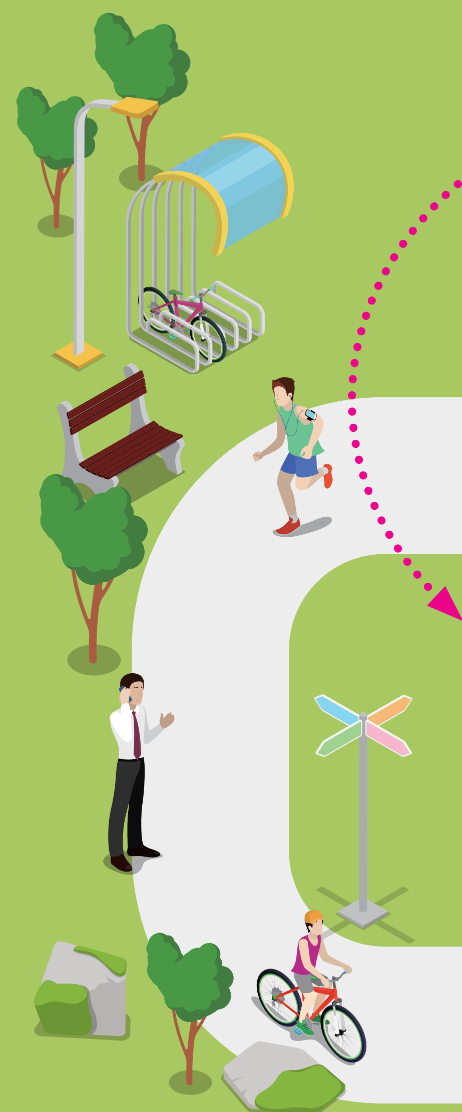
- Opened new shops in Hong Kong University MTR Station, Kennedy Town MTR Station and Lok Fu Place
- Awarded the "Caring Company" logo for twelve consecutive years
- "Hung Fook Tong Online" recognised as "Quality E-Shop" for two consecutive years

MAR

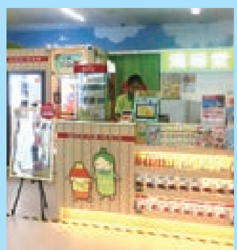
- Supported "The Community Chest Skip Lunch Day" for nine consecutive years
- Launched Smart Vendors "HUNG+"

AUG

- Opened a new shop in Siu Sai Wan Plaza



SEP



自家CLUB
JIKA CLUB

- Received the "Q-Mark Elite Brand Award"
- Joined the "No Straw Campaign"
- Opened new shops in the Paradise Mall and Hong Kong Children's Hospital
- The number of JIKA CLUB members exceeded 800,000

APR-MAY

- Opened new shops in Sai Ying Pun MTR Station, Shek Mun MTR Station and Mikiki shopping mall

JUN

- Launched Sparkling Salted Mardarin Drink

JUL

- Recruited Ms Jade Kwan as the brand ambassador of the Joyous Series

- Launched Durian Coconut Drink

DEC

- Relocated production facilities in Guanlan and Dongguan, Shenzhen City to Kaiping City, Guangdong

- Ranked the first in sales value and volume in the Wellness Drink Category for the 16th consecutive year, according to Nielsen

- Ceased all retail operation in Mainland China

DRIVING GROWTH THROUGH INNOVATIVE SOLUTIONS

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 2018.

In the past year, concerns of a global economic slowdown gradually increased, partly fuelled by the trade dispute between China and the United States. Though consumer sentiment was invariably affected both in Mainland China and Hong Kong, we were nonetheless able to achieve encouraging business growth due to strong brand recognition by the general public, and supported by our strong market presence. In Hong Kong, we remained the largest herbal retailer based on retail network size, and just as impressively, for the sixteenth consecutive year, the Hung Fook Tong brand has continued to occupy top position in the Wellness Drink category in Hong Kong, according to Nielsen.

Aside from our extensive retail network, now comprising 115 shops, and a stable wholesale operation that is underpinned by various key accounts, we have always set out to be an industry leader through innovation. This is reflected by our commitment to delivering omnichannel experiences to consumers. Apart from our e-commerce platform Hung Fook Tong Online and a food truck that is now in its second year of operation, we introduced yet another innovation in 2018 in the form of the Smart Vendor, a.k.a. "HUNG+ (鴻家)", which enables the Group to increase its exposure beyond shops, and provide customers with 24/7 personalised service. The HUNG+ machines are significant in that they not only provide greater convenience, but also greater satisfaction through the use of artificial intelligence to offer specific products. Moreover, they represent a cost effective option to retail network expansion for the Group.

Given the Group's sound fundamentals during the review year, the Board has resolved to recommend a final dividend of HK0.43 cent and a special dividend of HK0.36 cent per ordinary share respectively, totalling HK0.79 cent per ordinary share (2017: totalling HK0.68 cent).

OUTLOOK

In view of the ongoing Sino-US trade conflict and volatile stock and property markets, consumer sentiment in Hong Kong and Mainland China will likely take a downward trajectory in the coming year. Such an outlook is shared by The Hong Kong Retail Management Association, which has forecasted low single-digit growth in retail sales for 2019.

Though the outlook in the near future does give cause for concern, we have overcome numerous economic cycles in the past three decades of operation, and we remain fully committed to extending our market leadership in Hong Kong while at the same time protecting our interests in Mainland China. Towards achieving these objectives, we will seek to control costs, particularly procurement expenses, as this remains a determinant of our competitiveness.

With respect to the retail business, we are confident that our top position in Hong Kong will be preserved. We will open between six and eight retail shops in Hong Kong and implement a number of initiatives in the coming year. This will include the adoption of more innovative technologies, which will also enable us to address the challenge posed by the labour shortage while at the same time appeal to the young tech-savvy generation. A clear example is the opening of the Group's first smart concept shop in Hong Kong in early 2019. Equipped with smart technologies, customers are able to enjoy self-service convenience at this new concept store. We plan to roll out more advanced retail technologies and work with our corporate partners to deliver even greater shopping enjoyment at more shops of this nature in the near future. Also with customer convenience in mind, we will be putting around eight additional HUNG+ Smart Vendor machines in service in 2019.

In respect of our retail operation in Mainland China, we have elected to cease all activities by the end of 2018. This has been motivated by the rapidly changing sales environment for wellness drinks and the unsatisfactory performance of certain shops. We trust this decision is beneficial to the Group as we will be able to direct greater resources to enhance our wholesale operation in the Mainland China market. This will include further penetration of Southern China, while intensifying our marketing efforts in northern cities.

To build on achievements made in the Hong Kong wellness drink market, we will be introducing more flavours, which will be supported by greater exposure through the expansion of our wholesale sales channels.

Besides our traditional wholesale markets, we will expand our footprint abroad. In Taiwan, we will launch more products to strengthen our presence on the island. We will also look to capture opportunities that arise from the "Belt and Road" initiative, such as establishing beachheads in countries including Vietnam and Singapore in 2019.

On the production front, it is worth noting that construction of our new plant in Kaiping City, Guangdong Province was completed in late 2018. Trial production commenced subsequent to the reporting year, i.e. early 2019, and the new facility will supplant the Guanlan and Suzhou counterparts in the coming year. The Kaiping plant will allow the Group to address growing demand for its bottled drinks by providing additional capacity, and also enable it to benefit from cost-effective production as the facility is highly automated, hence will lead to lower production cost in the long run.

With strong brand equity, a wide spectrum of appealing products and the ability to innovate, and all overseen by a shrewd management team, we remain optimistic about the Group's ability to maintain leadership in the Hong Kong retail market and cement its position in Mainland China despite possible headwinds in the future.

APPRECIATION

I would like to take this opportunity to thank the management team and all members of the Hung Fook Tong family for their contributions over the past year. Also, I wish to extend my gratitude to the many business partners, shareholders and customers of the Group for their longstanding support.

On a sad note, all members of the Board would like to offer their sincere condolences to the family and close friends of Mr Kwan Wang Yung, one of the founders, the managing director and an executive director of the Group who passed away in October 2018. Mr Kwan made significant contributions to the Group, particularly in advancing production, with achievements that included the development of PET bottle packaging for long shelf-life drinks and the establishment of a sound food quality and safety management system. We trust that his invaluable contributions will have a positive and lasting impact on the Group in the many years to come.

Tse Po Tat
Chairman and Executive Director
Hong Kong, 28 March 2019

Retail Business

115 shops in Hong Kong

over **825,000** members

40+ new products launched

15 "HUNG+"
smart vendors

Hung Fook Tong Online

鴻 福 堂 Online

Recognised as "Quality E-Shop"
for two consecutive years

Wholesale Business

Market Leader in Hong Kong

- No. 1 in the Hong Kong Wellness Drink Category for the **16**th consecutive year
- 2018 market share* (in sales value): **35**%

* *Source: Nielsen*

Sales Coverage in Mainland China

- Covers **18** provinces and **48** cities
- Partners with **75** distributors
- **6** offices in Mainland China

Continuous Market Expansion

More products available at **FamilyMart** in Taiwan

Product Highlights

Long shelf-life drinks

Fresh drinks

Hot drinks

BUSINESS REVIEW

During the financial year, the Hong Kong and Mainland China retail sectors experienced greater headwinds as consumer confidence began to erode in the latter half year in the wake of the Sino-US trade dispute. In view of the rapidly changing retail sales environment in Mainland China, the Group elected to cease all retail operations in Mainland China in December 2018. Despite of this, the Group performed encouragingly owing to strong brand recognition from Hong Kong consumers on the retail front, and increased contributions from the Mainland China and Hong Kong wholesale businesses.

Revenue for continuing operations increased by 7.3% year-on-year to HK$783.4 million (2017: HK$729.8 million).

Gross profit for continuing operations rose by 4.8% to HK$476.3 million (2017: HK$454.6 million), due to robust performance by the Hong Kong retail operation. Gross profit margin for continuing operations slipped modestly, however, to 60.8% (2017: 62.3%), because of increases in raw material and packaging material costs, as well as a rise in factory wages.

Profit attributable to owners of the Company totalled HK$9.4 million (2017: HK$8.1 million), representing an increase of 15.6% over last year. As mentioned in the Group's 2018 interim report, the Group incurred certain one-off expenses in the second half year (including severance payments and write-off of plant and equipment) relating to the relocation of its production facilities from Guanlan and Dongguan, Shenzhen City, to Kaiping City, Guangdong Province, as well as the closure of all retail stores in Guangzhou, Mainland China. The Group's performance was also impacted to a lesser extent by the increase in shop rent and wages. Excluding the aforementioned one-off expenses pertaining to the Kaiping plant and closure of retail stores in Guangzhou, Mainland China, the profit attributable to owners of the Company would have been HK$28.4 million. Even though the Group's bottom line was impacted in the financial year, the management trusts that the new Kaiping facilities will increase production capacity and lower production costs over the long term.

The Group remains in a healthy financial position with HK$128.4 million in cash and cash equivalents (31 December 2017: HK$113.6 million), and continues to enjoy strong cash flows with healthy net cash generated from operating activities.

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

The Hong Kong retail business remained the largest revenue contributor to the Group, generating HK$557.9 million (2017: HK$516.1 million) during the review year, up 8.1% year-on-year, and accounting for 71.2% of total revenue. The increase can be attributed in particular to satisfactory same-store sales growth, which was driven by strong sales from the Joyous Series (自家喜慶系列), including Organic Chicken Essence (有機滴雞精) and Stewed Pork Trotter and Ginger in Sweet Vinegar (自家豬腳薑醋), as well as a notable increase in coupon sales via online platforms, corporate partners and at various exhibitions. Segment profit rose appreciably to HK$74.6 million, up 47.1% from HK$50.7 million in 2017, which was due to higher revenue and effective control of operating costs.

During the financial year, the Group has continued to deliver omnichannel experiences to its customers. In respect of traditional brick-and-mortar stores, the Group opened nine new shops in 2018, located in stations along the MTR Island Line Western Extension, shopping malls and a hospital. The Group has maintained its standing as the largest herbal retailer in Hong Kong based on retail network size, totalling 115 self-operated shops as at 31 December 2018.

To reach customers in an innovative and more engaging manner, the Group introduced Smart Vendors, known as "HUNG+ (鴻家)", which enables it to increase exposure beyond traditional shops and provide customers with 24/7 personalised services. As at 31 December 2018, there are 15 HUNG+ machines in operation, located in commercial buildings, shopping malls, residential estates and the airport. Since HUNG+ employs artificial intelligence that recognises facial features, it is able to suggest products that are most appropriate for the users and thereby enhance their shopping experience, leading to greater customer satisfaction.

With reference to the e-commerce realm, Hung Fook Tong Online ("HFT Online") has continued to provide a viable alternative to technology inclined consumers in Hong Kong. Reflecting the effectiveness and excellence of the platform, HFT Online earned the "Quality E-Shop" designation from the Hong Kong Retail Management Association ("HKRMA") in 2018, marking the second consecutive year that the platform has been so honoured.

As for reaching out to the Hong Kong public on a more personal level, the Group has recruited Ms Jade Kwan (關心妍), a talented singer and mother, as brand ambassador of the Joyous Series – one of the key product lines of the Group. The management trusts that Ms Kwan's affable manner and maternal instincts are ideal traits for promoting the series.

Owing to the aforementioned efforts, along with steady progress made by the Group's mobile application, JIKA CLUB (自家CLUB) has further extended its reach to over 825,000 members as at 31 December 2018, representing a significant increase of nearly 94,000 members during the financial year. Average spending per member has increased as well, driven by bonus point rewards and incentive programmes.

Wholesale

The Group recorded an increase in segment revenue from the wholesale business, rising by 5.6% year-on-year to HK$225.5 million (2017: HK$213.6 million). The upswing was primarily due to the launch of new products in Hong Kong and Mainland China, as well as expansion of sales channels during the review year. However, segment profit declined to HK$4.4 million (2017: HK$6.5 million), owing to a number of factors, including greater cost incurred from the purchase of packaging materials, i.e. Polyethylene Terephthalate ("PET") bottles; appreciation of the Renminbi ("RMB"), which impacted the results of the Hong Kong wholesale segment; and increased logistical costs in Mainland China – principally to northern cities, a side effect of improved performance by the Beijing operation.

The Hong Kong wholesale operation contributed revenue of HK$136.6 million (2017: HK$132.4 million), up 3.2% year-on-year. The increase was mainly due to the introduction of several new products such as Sparkling Salted Mandarin Drink (咸柑桔氣泡飲) and Durian Coconut Drink (榴槤椰香甘露), which boosted sales from grocery and general trade stores. Another contributing factor was the expansion of sales channels, which enabled the Group to tap more food and beverage operators such as Chinese hotpot restaurant and a Japanese buffet restaurant. Also helping spur sales was greater brand exposure via product placements in the TVB programme "Cooking Beauties (美女廚房)", as well as the implementation of eSports (電子競技) oriented campaigns. Consequently, the Group maintained its no.1 position in the Wellness Drink Category in Hong Kong based on sales value and volume. This marks the 16th consecutive year that the Group has preserved its top position – capturing 35.0% market share based on sales value in 2018 – according to Nielsen.

The Group has continued to make inroads outside of Hong Kong as well. In Taiwan, the Group strengthened its presence in FamilyMart stores by introducing Salted Lime Drink (咸青檸), winter drinks such as hot lemon tea (熱檸茶) and hot Sugarcane Drink (熱甘蔗汁), all of which helped to drive sales during the second half year.

Revenue from the Mainland China wholesale business rose encouragingly by 9.5% year-on-year to HK$88.9 million (2017: HK$81.2 million). This was due to the expansion of the Group's general trade sales network – driven by its partnership with a B2B online platform in Southern China, greater sales from Northern China as a result of stable sales growth from a major convenience store in Beijing, and the launch of several new products such as Passion Fruit with Honey Drink (百香果蜜), Fresh Herbal Tea (鮮製涼茶) and Sparkling Salted Mandarin Drink. As at the end of the review year, the Group possesses an extensive distribution network, comprising 75 distributors covering 18 provinces and 48 cities; among which Guangzhou continues to be the largest revenue contributor.

Discontinued Operation

As disclosed above, the Group elected to cease all retail operations in Mainland China in December 2018. Consequently, the business contributed revenue of HK$7.7 million (2017: HK$12.1 million), and recorded a segment loss of HK$4.4 million (2017: loss of HK$2.2 million) during the financial year. The loss was mainly due to one-off expenses of approximately HK$1.6 million relating to the closure of the Group's 15 self-operated retail stores, all located in Guangzhou, Guangdong Province during the financial year. The management nonetheless believes that by concluding retail operations in Mainland China, it will be able to better allocate and focus its human, financial and operational resources on its retail business in Hong Kong, as well as advance its wholesale business in the best interest of the Company and its shareholders.

Production Capability

During the financial year, the production plant at Guanlan, Shenzhen City has been relocated to Kaiping City, Guangdong Province, thus the Group's production capacity will be further enhanced. As for the Tai Po production plant in Hong Kong, the Group has remained committed to maintaining a high level of food safety management. This has been reflected by the facility's ability to again obtain ISO22000, HACCP (Hazard Analysis Critical Control Point) and GMP (Good Manufacturing Practices) accreditation from Accredited Certification International Limited ("ACI") in early 2019. The certificates, obtained since 2016, covered the manufacturing of a variety of the Group's food products, ranging from soup, herbal tea, cooked food to pork trotters and ginger. The accreditations testify to the Group's longstanding and successful efforts to deliver products that meet high safety standards.

PROSPECTS

Consumer sentiment in Hong Kong and Mainland China is expected to become increasingly cautious in the coming year, owing to the Sino-US trade dispute, possible depreciation of the RMB, and volatile stock and property markets. The headwinds will not, however, impede the Group's efforts to make further strides forward as it has sailed through numerous economic cycles over the past three decades of operation.

Unwaveringly, the Group will continue to strengthen its leadership in the Hong Kong retail market while at the same time reinforce its wholesale business in Mainland China. With the new Kaiping facilities commencing full production probably in the second quarter of 2019, the management trusts that the Group will benefit from lower production costs in the coming years. Just as importantly, the facilities will be able to support the demand for the Group's long shelf-life and fresh drinks from the Mainland China market, as it is equipped with four highly automated production lines.

Hong Kong Retail

Aside from taking steps to advance production, the Group will seek to protect its leadership in the Hong Kong retail market. The Group targets to open between six and eight new shops as part of its expansion strategy in 2019. Already, six sites have been secured, located in MTR stations and shopping malls, including one shop in Sham Tseng which has opened in January 2019. Other efforts to be pursued include expanding the Joyous Series by offering more postnatal meals (坐月食療) and essences; increasing the subscription rate of its digital membership card, thereby raising brand loyalty and spending; revising store designs for new shops to appeal to customers, and making further investments that facilitate technological innovation.

A vivid example of the Group's ability to innovate has been the introduction of HUNG+. In the coming year, the Smart Vendor will find its way to around eight new locations, with one machine already in operation at a commercial building. As shop rent and wages will continue to rise, the use of more HUNG+ machines will enable the Group to benefit from greater economies of scale and cost reduction. Just as importantly, it will be able to gather customer purchase information, which, via data analytics, will allow the management to gain valuable insights into consumption patterns, leading to the development of more effective sales and marketing strategies.

Remaining in the vanguard of market innovation, the Group is embracing the new era of Smart Retailing by operating the first smart concept shop (智能概念店) in Hong Kong. Opened subsequent to the financial year, i.e. January 2019, the concept shop is located in Kowloon Tong, and is equipped with self-checkout kiosks and e-payment options, while a facial recognition payment system is in the pipeline. The Group will closely monitor the store, which doubles as an important testing ground, and will evaluate the viability of rolling out several more smart concept shops in the coming year, as the retail landscape becomes increasingly diversified.

Wholesale

To continue building growth momentum in the Hong Kong wholesale market, the Group will be launching new herbal or fruity drink products featuring new packaging that appeals to a diverse spectrum of the general public to capture greater market share. It will also enter into joint promotions with other brands such as the licence holders of cartoon characters to draw attention to the Hung Fook Tong brand. Furthermore, efforts will be made at tapping food and beverage outlets, especially those that offer hotpot buffets, as well as bakeries.

In respect of overseas markets, the Group plans to launch ambient drink products in Vietnam, while in Singapore it will be introducing chilled products in the coming year.

The wholesale operation in Mainland China remains an important part of the Group's makeup, and the management will seek to maximise its potential in 2019, despite the fast changing and competitive nature of the local beverage market. To drive sales in Southern China, the Group will direct greater attention to tapping second-tier cities by extending sales channels to grocery shops, restaurants, schools, etc. Furthermore, the top selling products in Southern China will serve as catalyst for strengthening the Group's presence in other parts of the country, and will be supported by a push to penetrate convenience stores and hypermarkets.

To address the ever changing tastes of consumers, the Group will launch more new products, as well as consider distributing imported beverage products. On the online front, not only will the Group partner with B2C e-retailers but also leading B2B online platforms to achieve better coverage.

CONCLUSION

Constantly striving for excellence, the Group will seek to build on its accomplishments in the coming year, particularly on the technology front. This will include enriching omnichannel experiences, honing technologies recently introduced and bringing even more innovations that benefits consumers. By taking a leadership role in advancing the wellness food and beverage industry, the management is confident that the Group will be able to further raise its stature in Hong Kong and Mainland China and achieve favourable outcomes for all stakeholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group's revenue for the continuing operations amounted to HK$783.4 million, representing an increase of 7.3% from HK$729.8 million in 2017. Despite the keen competition in the retail market in both Hong Kong and Mainland China, revenue from Hong Kong retail operation has increased to HK$557.9 million, representing an increase of 8.1% from HK$516.1 million in 2017 as a result of satisfactory same-store sales growth partly resulting from the sales of products from the Joyous Series and an increase in coupon sales by expanding the customer base via different online platforms, corporate partners and at various exhibitions. Revenue from wholesale business has also increased to HK$225.5 million, representing an increase of 5.6% from HK$213.6 million in 2017 due to the launch of new products and the expansion of sales channels.

Cost of Sales

For the year ended 31 December 2018, the Group's cost of sales for the continuing operations amounted to HK$307.0 million, representing an increase of 11.6% from HK$275.1 million in 2017. As a percentage of revenue, cost of sales represented 39.2% and 37.7% in 2018 and 2017 respectively.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2018, the Group's gross profit for the continuing operations amounted to HK$476.3 million, representing an increase of 4.8% from HK$454.6 million in 2017. The Group's gross profit margin for the continuing operations decreased by 1.5 percentage points to 60.8% as compared to 62.3% in 2017. The decrease was mainly due to the increase in the raw material and packaging material costs, higher staff cost impacted by the adjustment in minimum wages and appreciation of RMB resulting in an increase in cost of sales.

Staff Costs

For the year ended 31 December 2018, the Group's staff costs for the continuing operations, excluding termination benefits as a result of the relocation of production plant during the year, amounted to HK$229.5 million, representing a decrease of 1.0% from HK$231.7 million in 2017. The staff cost-to-revenue ratio for the continuing operations is 29.3% as compared to 31.8% in 2017.

Rental Expenses

For the year ended 31 December 2018, the Group's rental expenses in relation to its retail shops for the continuing operations amounted to HK$106.3 million, representing an increase of 2.0% from HK$104.2 million in 2017. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 19.1% as compared to 20.2% in 2017.

Advertising and Promotion Expenses

For the year ended 31 December 2018, the Group's advertising and promotion expenses for the continuing operations amounted to HK$30.4 million, representing an increase of 6.1% from HK$28.6 million in 2017. This accounted for 3.9% in percentage to revenue for the continuing operations in both 2018 and 2017.

Depreciation and Amortisation

For the year ended 31 December 2018, the depreciation and amortisation for the continuing operations of the Group amounted to HK$29.5 million, representing a decrease of 1.9% from HK$30.1 million in 2017. This accounted for 3.8% and 4.1% respectively in percentage to revenue for the continuing operations in 2018 and 2017.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2018 was HK$9.4 million, representing an increase of 15.6% from HK$8.1 million in 2017. The net profit margin (calculated as profit for the year as a ratio of revenue) remained at 1.1% for the year ended 31 December 2018 and 31 December 2017.

Earnings per share for profit from continuing operations attributable to owners of the Company for the year amounted to HK2.11 cents, as compared to HK1.60 cents in 2017. Earnings per share for profit attributable to owners of the Company for the year amounted to HK1.43 cents, as compared to HK1.24 cents in 2017.

Capital Expenditure

During the year ended 31 December 2018, capital expenditure amounted to HK$86.0 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, and the 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$128.4 million as at 31 December 2018 (31 December 2017: HK$114.7 million).

As at 31 December 2018, the gearing ratio of the Group was 0.35 (31 December 2017: 0.20), which was calculated based on total debt divided by total equity attributable to owners of the Company.

As at 31 December 2018, the Group had total banking facilities of HK$134.5 million (31 December 2017: HK$122.1 million) of which HK$95.8 million (31 December 2017: HK$54.1 million) had 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 HKD and RMB. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB. The Group will continue to take proactive measures and monitor closely of its exposure to such currency movement.

Material Acquisitions, Disposals and Significant Investments

There were no material acquisitions, disposals and significant investments during the financial year ended 31 December 2018.

Contingent Liabilities

(i) Taclon Industries Limited ("**Taclon**"), a subsidiary of the Company, is involved in a potential litigation claim 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 2018, the Group employed approximately 1,305 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 2018, 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. Herbal and Postnatal Care courses provided by Hong Kong University School of Professional and Continuing Education were launched to enhance frontline staff's basic knowledge of Chinese medicine for pregnant women.


鴻福堂
HUNG FOOK TONG
香港Q嘜優質服務計劃
Hong Kong Q-Mark Service Scheme
Q嘜人氣品牌
2018
香港名牌十年成就獎
Hong Kong Top Brand Ten Year Achievement Award
2018
e-shop
優網店
10 years+
商界展關懷
caringcompany
5 years+
ESG
CARBONCARE® ESG LABEL
Green Office
ECO-Healthy WORKPLACE
HAPPY 開心企業
COMPANY
5years+

CORPORATE SOCIAL RESPONSIBILITY

As a leading food and beverage brand in Hong Kong and a responsible corporate citizen, the Group is committed to the pursuit of sustainable development as well as contribute to the advancement of society. Its efforts in these areas and the transparency by which it contributes have been recognised, including by the BDO Environmental, Social and Governance ("ESG") Awards which for the second year has bestowed the awards on the Group in 2019, for its sustainability initiatives and ESG reporting standards during the year 2017. In addition, it has received the CarbonCare® ESG label (Level 3) for good practices in ESG reporting during the review year. These awards recognised the Group's positive impact on the environment, its operations and the community by implementing sustainability initiatives.

In 2018, the Group has continued in its efforts to advance different aspects of ESG with highlights mentioned below. Further details will be available from the Group's 2018 ESG Report.

ENVIRONMENTAL

Energy Conservation

During the review year, retail stores of the Group that have been fitted with external lighting signed the "Charter on External Lighting", launched by the Environment Bureau. Subsequently, approximately 16% of the Group's stores were recognised with the "Gold Award" for fulfilling the pledge to switch off external lights. Moreover, all of the Group's retail shops now use refrigerators that are fitted either with doors or plastic curtains to reduce energy consumption and carbon emissions. Still other efforts aimed at energy and environmental conservation include building awareness among staff at the workplace. Such green workplace practices have led to the awarding of "Green Office Label 2018" and "Eco-Healthy Workplace Label 2018" by the World Green Organisation.

Waste and Plastic Recycling

In an effort to address the serious landfill problem in Hong Kong, the Group has continued to offer food waste from its Tai Po production plant to a recycling company on a daily basis. As a consequence, about 107 tonnes of food waste have been recycled in 2018 and thus greenhouse gas emissions have been reduced. The Group has also engaged in the recycling of different materials including plastic, wooden pallets, paper and scrap metal from its factory operation.

To encourage the involvement of customers in the recycling effort, the Group has been offering its discount coupons through approximately 50 recycling machines that can be found in different areas of Hong Kong. In 2018, more than 8,000 containers, both plastic and metal, were collected and recycled as a result of these machines.

Waste Reduction

The Group, in partnership with various food banks, including People Service Centre (民社服務中心), has continued to conduct daily collections of surplus food at selected retail shops for redistribution to the needy.

- Received "Gold Award" under the "Charter on External Lighting" Scheme

- "Beyond a Team" team building activity for staff

- Sponsored discount coupons for recycling machines in Hong Kong

Furthermore, it has sought to wean customers off of single-use plastic items such as straws, shopping bags and disposable cups. Consequently, since mid-2018, straws and disposable cups have only been provided upon request. It has also joined the "No Straw Campaign", organised by the Ocean Park Conservation Foundation Hong Kong, as a "No Straw Partner". As a greener alternative to plastic bags, the Group sells its own version of the Grab'n'Go reusable food bag. Additionally, plastic bag levies collected from customers are donated to World Wide Fund for Nature (WWF) – Hong Kong and Chinese Young Men's Christian Association (YMCA) of Hong Kong to support their environmental education projects.

To cut down paper usage over the long term, the Group has been actively promoting the use of digital membership cards and e-coupons so as to reduce the use of their paper/plastic counterparts.

SOCIAL

Talent Development

As at 31 December 2018, the Group had a workforce of about 1,305 people, comprising 873 employees in Hong Kong and 432 employees in Mainland China. As an equal opportunity employer, the Group has provided job opportunities to various non-governmental organisations (NGOs), including Hong Chi Association and Christian Family Service Centre. The Group also supports life-long learning, organising 172 staff training courses during the review year that had an aggregate of 3,117 attendances.

Supply Chain Management and Product Responsibility

As at 31 December 2018, the Group had over 170 key suppliers. The Group employs strict selection and ongoing monitoring procedures for all of its suppliers, as well as vendors, third-party logistic partners and other service providers. With food safety its top priority, the Group's production facilities observe stringent quality controls and are compliant with internationally recognised standards, including ISO22000, HACCP and GMP. During the review year, the Group's Mainland China production facilities were relocated from Guanlan and Dongguan, Shenzhen City, to Kaiping City, Guangdong Province, and it will ensure that equally high levels of product quality and food safety are met.

Community Investment

To contribute to the community, the Group has offered in-kind products, coupon and cash sponsorships, amounting to more than HK$3.4 million in 2018. Consequently, more than 190 NGOs, schools and associations have benefited from the Group's donations. The Group has also encouraged staff participation in charitable works and volunteer services, which has resulted in the involvement of 131 attendances on aggregate and more than 650 service hours rendered during the review year.

• Care for the underprivileged

• Beach cleaning day

• Support sustainable living

AWARDS AND RECOGNITION

In recognition of the Group's distinguished achievements, both within and outside the industry, including its continuous efforts in advancing corporate governance and societal development, the Group has been bestowed numerous awards over the past year as summarised in the following list:

Award	Issuer of Award
IN RECOGNITION OF BRAND MANAGEMENT AND CUSTOMER SERVICE	
The Hong Kong Q-Mark Service Scheme & Q-Mark Elite Brand Awards 2018	The Federation of Hong Kong Industries
Hong Kong Service Awards 2018	East Week
Superbrands 2018	Superbrands
2018 Hong Kong Top Brand	Hong Kong Brand Development Council & The Chinese Manufacturers' Association of Hong Kong
GS1 Consumer Caring 5 years+	GS1 Hong Kong
2018 Quality E-Shop & Top 10 Quality E-Shop Awards – Best Contract Fulfillment	Hong Kong Retail Management Association
PARKnSHOP Super Brands Award 2017 – Healthy Drinks	PARKnSHOP
2017 Outstanding Sales Performance Awards – Beverages	7-Eleven
Trusted Brands 2018 — Platinum Award (Chinese Soup/Herbal Tea Shop)	Reader's Digest
IN RECOGNITION OF ENVIRONMENTAL EFFORTS	
BDO ESG Awards 2019 - Certificate of Merit: Best in ESG (Small Market Capitalisation) & Certificate of Merit: Best in Reporting (Small Market Capitalisation)	BDO Limited, Hong Kong
Green Office Label & Eco-Healthy Workplace Label 2018	World Green Organisation
CarbonCare® ESG Label 2018 (Level 3)	CarbonCare InnoLab
Charter on External Lighting Award (Gold Award)	The Environment Bureau
IN RECOGNITION OF COMMUNITY INVESTMENT	
10 Years Plus Caring Company 2006-2018	The Hong Kong Council of Social Service
Social Capital Builder 2018-2020	The Labour and Welfare Bureau - Community Investment and Inclusion Fund
IN RECOGNITION OF TALENT DEVELOPMENT	
Happiness-at-Work 5 Years+	The Hong Kong Productivity Council
ERB Manpower Developer Award Scheme : Manpower Developer (2011-2019)	Employees Retaining Board
Employer of Choice Award 2018	JobMarket
Smiling Enterprise Award & Smiling Employer Award 2018-19	Hong Kong Mystery Shopper Service Association
Family-Friendly Employers 2017/18 & Special Mention (Gold) & Award for Breastfeeding Support	The Family Council

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. TSE Po Tat, aged 65, 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 32 years of experience in commerce and the herbal drinks industry. After joining our Group in November 1988, he developed our central production facilities and product delivery logistics and managed our procurement of production equipment and the leasing and renovation of retail shops. Mr. Tse currently is the chairman of the Hong Kong Federation of Restaurants and Related Trades Limited, a member of executive committee of Group 8: Food, Beverages and Tobacco of the Federation of Hong Kong Industries, an elected member of General Committee and a member of Promotion and Advocacy Committee of Hong Kong Brand Development Council, a member of HKTDC Mainland Business Advisory Committee, the chairman of School Management Committee of The Chinese YMCA of Hong Kong as well as a member of Industry Consultative Network of Employees Retraining Board. Mr. Tse had obtained "2016 Honorary Fellow" from The Professional Validation Council of Hong Kong Industries in 2016.

Dr. SZETO Wing Fu, aged 57, is the general manager and an executive Director of our Company, and a member of Nomination Committee and the chairman of 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, a member of executive committee of the Hong Kong Retail Management Association and a member of Center for Economic Sustainability and Entrepreneurial Finance Advisory Committee of the School of Accounting and Finance in The Hong Kong Polytechnic University. He is also a 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 currently a Fellow FCPA (Aust.) of CPA Australia.

Ms. WONG Pui Chu, aged 59, 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, product development and also oversees production and quality control. She has over 32 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 70, 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, 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, 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 63, 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 currently an advisor to the Hong Kong Institute of Marketing and the Honorary Institute Fellow of The Asia-Pacific Institute of Business of CUHK Business School, CUHK. 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 54, 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 holds a bachelor of commerce degree from the University of Toronto and has over 25 years' experience in the equity investment analysis of Hong Kong and China stock markets. From 2000 to 2008, Mr. Look served in Union Bank of Switzerland ("UBS") as the head of Hong Kong research, strategy and product. He was rated as the best Hong Kong strategist and best analyst by the Asiamoney magazine, a leading monthly financial and capital markets publication for corporate and finance readers and investors, in 2001, 2002, 2003, 2005, 2006 and 2007.

Mr. Look is currently the Chief Investment Officer of the asset management business of Tou Rong Chang Fu Group Limited (Stock code: 850), a company listed on the Stock Exchange. Mr. Look is also currently an independent non-executive director of Ka Shui International Holdings Limited (Stock code: 822), Citic Resources Holdings Limited (Stock code: 1205), Union Medical Healthcare Limited (Stock code: 2138) and, all of which are listed on the Stock Exchange. He was an independent non-executive director of TCL Communication Technology Holdings Limited (a company delisted on the Stock Exchange on 30 September 2016) from September 2010 to September 2016, an independent non-executive director of Man Sang Jewellery Holdings Limited (Stock code: 1466, a company listed on the Stock Exchange) from September 2014 to December 2016, and an independent non-executive director of Cowell e Holdings Inc. (Stock code: 1415, a company listed on the Stock Exchange) from April 2017 to December 2018.

SENIOR MANAGEMENT

Ms. TULL Shuk Ching, aged 56, 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 48, 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 25 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 41, 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 in May 2017.

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

Mr. LEE Bang Lau, aged 61, 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 54, 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 22 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 42, 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 39, 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 14 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 42, is a senior manager of our Group and responsible for human resource management, people development and administration. Ms. Tsang has over 19 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 43, is the manager of our Group and responsible for customer relationship management and institutional sales. Mr. Sun has over 20 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.

Mr. LAU Siu Ki, aged 60, 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 2018.

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 15 to the consolidated financial statements. The segment information of the operations of the Group for the year ended 31 December 2018 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 2018 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 16 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:

- Intense competition in food and beverages industry and 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 is launching 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 2018, there are over 825,000 JIKA Club members among which included Platinum Members who are highly brand loyal and have significant spending power.

- Volatility of economic climate in Mainland China and Hong Kong, in particular in the midst of the trade disputes between China and the United States of America, 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.

Particulars of important events

During the year, the Group discontinued its retail business in Mainland China. In addition, the Group commenced to relocate its production facilities from Guanlan and Dongguan, Shenzhen City to Kaiping City, Guangdong Province.

Save as disclosed above, no important events affecting the Group have occurred during and subsequent to 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 Review" on pages 57 to 133 and 14 to 16, 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 2018 ESG Report to be published in July 2019 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 2018 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 16, 18 to 19 and 38 to 49, respectively, of this Annual Report, further details will be disclosed in our 2018 ESG Report to be published in July 2019.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on pages 57 to 58 of this Annual Report.

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018.

A final dividend in respect of the year ended 31 December 2018 of HK0.43 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 HK0.36 cent per ordinary share. The proposed final and special dividends amounted to a total of HK$5,182,000 with dividend payout ratio of 0.55 have to be approved by shareholders in the forthcoming annual general meeting ("AGM") to be held on 6 June 2019. 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 2019.

Subject to the approval of the shareholders at the forthcoming AGM, the final dividend and special dividend will be payable on or about Friday, 12 July 2019 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Thursday, 20 June 2019.

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 61 of this Annual Report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to shareholders amounted to approximately HK$211.6 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$111.4 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 Thursday, 6 June 2019, the register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019, 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, 31 May 2019.

For determining the entitlement to the proposed final dividend and special dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 14 June 2019 to Thursday, 20 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and 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, 13 June 2019.

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 134 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 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 2018, certain assets of the Group have been pledged to secure bank borrowing facilities, details of which and particulars of all bank borrowings of the Group as at 31 December 2018 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 2018.

DONATIONS

Charitable donations made by the Group during the year ended 31 December 2018 amounted to HK$235,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, 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 at the date of this Report are as follows:

Executive Directors:

Mr. TSE Po Tat *(Chairman)*
Ms. WONG Pui Chu
Dr. SZETO Wing Fu

Independent Non-Executive Directors:

Mr. KIU Wai Ming
Professor SIN Yat Ming
Mr. Andrew LOOK

During the year, Mr. KWAN Wang Yung served as an Executive Director until he deceased on 1 October 2018. Save as disclosed above, there have been no other 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. Dr. Szeto Wing Fu and Prof. Sin Yat 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 2018, 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	394,060,600 (Long position)	60.07
Mr. Tse Po Tat (Notes 1 & 4)	Interests held jointly with other persons; Interest in a controlled corporation	394,060,600 (Long position)	60.07
Mr. Kwan Wang Yung (deceased) (Notes 1 & 5)	Interests held jointly with other persons; Interest in a controlled corporation	394,060,600 (Long position)	60.07
Dr. Szeto Wing Fu (Note 6)	Interest in a controlled corporation	24,704,600 (Long position)	3.77

Notes:

(1) Pursuant to the Acting in Concert Confirmation, a deed dated 27 March 2014 executed by Ms. Wong Pui Chu, Mr. Tse Po Tat and the late Mr. Kwan Wang Yung (collectively referred to as the "Controlling Shareholders"), whereby they have agreed to jointly control their respective interests in the Company and decisions as to the business and operations of the Group shall be made in accordance with their unanimous consent. 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 0.34% (being 2,214,000 Shares) by Ms. Wong Pui Chu.

(3) The Company was directly owned as to 29.21% (being 191,638,000 Shares) by Think Expert Investments Limited ("Think Expert"). By virtue of her 100% shareholding of Think Expert, Ms. Wong Pui Chu is deemed to be interested in the same number of shares held by Think Expert.

(4) The Company was directly owned as to 16.63% (being 109,122,400 Shares) by YITAO Investments Limited ("YITAO"). By virtue of his 100% shareholding of YITAO, Mr. Tse Po Tat is deemed to be interested in the same number of Shares held by YITAO.

(5) The Company was directly owned as to 13.89% (being 91,086,000 Shares) by Prestigious Time Limited ("Prestigious Time"). By virtue of his 100% shareholding of Prestigious Time, the late Mr. Kwan Wang Yung (deceased on 1 October 2018) 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 2018, 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 2018, 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	394,060,600 (Long position)	60.07
YITAO (Note 2)	Interests held jointly with other persons; Beneficial interest	394,060,600 (Long position)	60.07
Ms. Chan Suk Hing Comita (Note 3)	Interest of spouse	394,060,600 (Long position)	60.07
Prestigious Time (Note 4)	Interests held jointly with other persons; Beneficial interest	394,060,600 (Long position)	60.07
Mrs. Kwan Chan Lai Lai (Note 5)	Interest of spouse	394,060,600 (Long position)	60.07

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 the late 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 the late Mr. Kwan Wang Yung and is therefore deemed to be interested in the shares that the late Mr. Kwan Wang Yung is interested in under the SFO.

Save as disclosed above, as at 31 December 2018, 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 2018 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 2018, 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 2018.

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.

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 an entity connected with 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 2018 or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, 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 2018 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:

- Dr. Szeto Wing Fu, Executive Director of the Company, had been appointed as the chairman of the Strategy and Development Committee of the Company on 20 November 2018 to fill vacancy of the late Mr. Kwan Wang Yung, and as a member of Center for Economic Sustainability and Entrepreneurial Finance Advisory Committee of the School of Accounting and Finance in The Hong Kong Polytechnic University on 1 March 2019.

- Mr. Andrew LOOK, Independent Non-executive Director of the Company, had ceased to be an independent non-executive director of Cowell e Holdings Inc. (stock code: 1415, a company listed on the Stock Exchange) on 13 December 2018.

- Prof. Sin Yat Ming, Independent Non-executive Director of the Company, had been appointed as the Honorary Institute Fellow of The Asia-Pacific Institute of Business of CUHK Business School, CUHK on 1 March 2019.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Listing Rules throughout the year ended 31 December 2018.

DEED OF NON-COMPETITION

The Controlling Shareholders, Mr. Tse Po Tat and Ms. Wong Pui Chu, 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 2018.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the "Corporate Governance Report" on pages 38 to 49 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. As disclosed in the announcement of the Company "Change in Use of Proceeds" published on 12 October 2018, the Company had proposed to reallocate (i) approximately HK$29.7 million originally intended for opening of new retail shops in Hong Kong and Mainland China; and (ii) approximately HK$3.2 million originally intended for expansion of distribution network for wholesale in Mainland China, to the Group's new production plant in Kaiping City, Guangdong Province and relocation of the production sites from Suzhou City, Jiangsu Province and Guanlan, Shenzhen City to Kaiping City, Guangdong Province. The net proceeds from the Listing have been utilised as follows:

	As set out in the prospectus HK$' million	Amount actually used up before reallocation HK$' million	Reallocation HK$' million	Amount used up after reallocation HK$' million	Unutilized amount as at 31 December 2018 HK$'million
Opening of new retails shops in Hong Kong and Mainland China	101.2	71.5	(29.7)	–	–
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 China	9.9	6.7	(3.2)	–	–
Repayment of bank borrowings	19.6	19.6	–	–	–
Construction of production plant in Kaiping City, Guangdong Province and relocation of the production sites	–	–	32.9	32.9	–
Total	181.9	149.0	–	32.9	–

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 Thursday, 6 June 2019 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 2018.

On behalf of the Board

Tse Po Tat
Chairman and Executive Director

Hong Kong, 28 March 2019

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") as set out in Appendix 14 of 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 2018.

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 Chairman. If the Chairman declares an intention of dealing in the Company's shares, he must first obtain approval from one of the Directors of the Company.

The Company has made specific enquiry of all Directors, and each Director has confirmed that he/she has complied with the standard set out in the Code of Conduct and the Model Code throughout the year ended 31 December 2018.

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 risks, 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 Executive Director and General Manager, Dr. Szeto Wing Fu 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 General Manager 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 six members, made up of three 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
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

In addition, Mr. KWAN Wang Yung served as Managing Director and Executive Director until he passed away on 1 October 2018.

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.

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 and committee 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 2018. 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 2018, 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 2018 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	4	4	1	1
Kwan Wang Yung *(Deceased on 1 October 2018)*	3	3	1	1
Wong Pui Chu	4	4	1	0
Szeto Wing Fu	4	4	1	1
Kiu Wai Ming	4	4	1	1
Sin Yat Ming	4	4	1	1
Andrew Look	4	4	1	1

Apart from the regular Board meetings, the Chairman has also held a meeting with all independent non-executive Directors without the presence of other Directors during the year.

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 latest version of the terms of reference of the audit committee is accessible on the websites of the Stock Exchange and the Company respectively.

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 2017;
- reviewed the unaudited interim financial statements for the six months ended 30 June 2018;
- 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 reference of the committee to consider if any proposed changes that deemed appropriate or advisable.

Apart from the regular audit committee meetings, the committee has also held a meeting with external auditors without the presence of the management on during the year.

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, and considered different aspects of remuneration with reference to the information and documents provided from time to time by the Company's human resources department.

The latest version of the terms of reference of the remuneration committee is accessible on the websites of the Stock Exchange and the Company respectively.

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; assessed performance of executive directors and senior management; reviewed the composition of senior management; discussed and recommended the remuneration packages of the directors and senior management for the Board's approval; and reviewed the terms of reference 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:

Annual Salary Bands	Number of Individuals
Below HK$1,000,000	7
HK$1,000,001 to HK$1,500,000	3

The details of the fees and other emoluments paid or payable to the Directors are set out in details in Note 36 to the consolidated financial statements.

Nomination Committee

As at the date of this Annual Report, the nomination committee consists of four 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 member is an executive Director, Dr. Szeto Wing Fu. In addition, Mr. Kwan Wang Yung served as a member of the nomination committee until he passed away on 1 October 2018.

The primary role of the nomination committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board according to the policies. 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 of perspectives (including but not limited to gender, age, cultural, educational background, profession 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;
- implement and review the director nomination policy ("Director Nomination Policy"), including the nomination procedures and the process and criteria adopted by the nomination committee to select and recommend candidates for directorship and make recommendations to the Board on the same if any; and
- oversee the implementation of the Company's written board diversity policy ("Board Diversity Policy") to ensure diversity of Directors.

The latest version of the terms of reference of the nomination committee is accessible on the websites of the Stock Exchange and the Company respectively.

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 and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board, and reviewed the terms of reference of the committee to consider if any proposed changes that deemed appropriate or advisable.

DIRECTOR NOMINATION POLICY

The Company has adopted a nomination policy which supplements the terms of reference of the nomination committee. The Director Nomination Policy aims at setting out the criteria and process in the nomination and appointment of directors of the Company; ensuring that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company; and ensuring the Board continuity and appropriate leadership at Board level. The policy applies to the directors of the Company and where applicable, senior management with the aim of promoting to the Board positions under the succession planning of the Company.

The Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the nomination committee of the Company.

The content of the policy is summarized as follows:

Selection Criteria

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;

- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

- such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the nomination committee from time to time for nomination of directors and succession planning.

Nomination Process

Appointment of New Director

- The nomination committee and/or the Board should, upon receipt of the proposal of appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

- If the process yields one or more desirable candidates, the nomination committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

- The nomination committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

- For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the nomination committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

- Where appropriate, the nomination committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of Director at General Meeting

- The nomination committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

- The nomination committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

- The nomination committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

- Where the board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The nomination committee will conduct regular review on the structure, size and composition of the Board and the policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

The policy has been published on the Company's website for public information.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company has an official written policy, the Board Diversity Policy, relating to the diversity of Board members, which aims to set out the approach to achieve diversity on the Board.

Pursuant to the policy, board diversity has been considered from a number of aspects including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of perspectives of diversity within the Board. Selection of candidates will be based on a range of diversity perspectives appropriate to the requirements of the Company's business operations and environment as well as the industry in which the Company operates. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Regarding the Board's current composition, the Board comprises 5 male and 1 female Directors with different age, length of service and diversity perspectives, which have been disclosed in biographical information shown in pages 21 to 25 in "Directors and Senior Management"

The nomination committee will continuously monitor and review the implementation and operation of this policy and the progress towards achieving the measurable objectives, and also review this policy to ensure its effectiveness from time to time, as appropriate. The nomination committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The policy has been published on the Company's website for public information.

Strategy and Development Committee

As at the date of this Annual Report, the strategy and development committee consists of two members, both of them are Executive Directors, namely Dr. Szeto Wing Fu (Chairman) and Ms. Wong Pui Chu. In addition, Mr. KWAN Wang Yung served as the Chairman of the strategy and development committee until he passed away on 1 October 2018 while Dr. Szeto served as a member until he filled the vacancy to replace the late Mr. Kwan with effect from 20 November 2018.

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 one meeting which Ms. Wong and Dr. Szeto have attended. During the meeting, strategies concerning business development and plans relating to the daily operations of the Group and proposed amendments on the terms of reference of the committee were discussed and reviewed.

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 2018, 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 interim review for the six months ended 30 June 2018 and the audit services for the year ended 31 December 2018 amounted to approximately HK$2.9 million. The remuneration paid or payable to PricewaterhouseCoopers in respect of other permissible non-audit services amounted to approximately HK$0.2 million.

Directors' and Auditor's Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report on pages 50 to 56 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 maintaining effective and timely dissemination of the Company's information to its shareholders and the market, and ensuring that shareholders and prospective investors have the available information reasonably required to make informed assessments of the Company's strategy, operations and financial performance. The Company has established a shareholders' communication policy in relation to communicating with its shareholders and potential investors and providing regular communications to its shareholders.

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.

Dividend Policy

The Company has adopted a dividend policy (the "Dividend Policy"), which aims at setting out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. Under the policy, in recommending or declaring dividends, the Company shall maintain adequate cash reserve for meeting its working capital requirements and future growth as well as its shareholder value.

A summary of Dividend Policy is disclosed as below:

The Company does not have any pre-determined dividend payout ratio.

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Articles of the Association of the Company and all applicable laws and regulations and the various factors stipulated.

Regarding the declaration and payment of dividends, the Board considers the Group's financial condition, results of operation and level of cash; statutory and regulatory restrictions; future prospects and any other factors that the Board may consider relevant. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, interim dividend, final dividend, special dividend and any distribution of net profits that the Board may deem appropriate may be proposed and/or declared by the Board for a financial year or period.

Any final dividend for a financial year will be subject to shareholders' approval.

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Company's Articles of Association.

The Board will review this Policy as appropriate from time to time.

The policy has been published on the Company's website for public information.

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 at 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 2018, 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.

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 57 to 133, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 2018, 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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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
- Sales rebates and discounts in wholesale of bottled drinks; and
- Revenue recognition for the sales of goods through pre-paid coupons and credits

Key Audit Matter	How our audit addressed the Key Audit Matter
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$43.4 million, of which over 36% was past due. The Group is therefore exposed to a risk of default in respect of past due and long-aged trade receivable balances. We focus on this area due to the significant judgements used to evaluate and measure the estimated amount that the Group can recover in respect of its trade receivables.	We, on a sampling basis, tested the aging profile and post-year-end subsequent settlement of the Group's trade receivables and focused on outstanding balance for 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 (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Sales rebates and discounts in wholesale of bottled drinks Refer to note 2.24(b) 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 in 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.	We understood, evaluated and tested management's key control in respect of the annual 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 were 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 during the year and 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.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition for sales of goods through pre-paid coupons and credits Refer to note 2.24(a) and note 4(h) to the consolidated financial statements Revenue mainly represents income from the sales of goods. Revenue is recognised when control of goods is transferred to a customer and at the amount to which the entity expects to be entitled. As part of the Group's ordinary activities for the retail business, pre-paid coupons and credits 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. Pre-paid coupons and credits are non-refundable and customers may not utilise all of their contracted rights before the expiry. Such unutilised coupons are referred to as "breakage". An expected amount of breakage is estimated by management based on historical experience and is recognised as revenue in proportion to the pattern of coupons redeemed by customers. Any unutilised prepayments are fully recognised in consolidated statement of comprehensive income upon their expiry.	We understood, evaluated and tested management's key control in respect of revenue recognition for the sales of goods through pre-paid coupons and credits, including the recording of proceeds received from sales of pre-paid coupons and credits as receipts in advance, the recognition of revenue based on the number of pre-paid coupons and credits redeemed and the recognition of revenue upon the expiry of the pre-paid coupons and credits. We, with the assistance of our internal specialists over information technology ("IT") system, identified and evaluated the relevant IT systems and the design, implementation and operating effectiveness of key automated controls over the recognition of revenue, with particular attention to the controls over capturing and recording transactions for pre-paid coupons and credits. We conducted substantive testing of pre-paid coupons and credits redeemed and expired during the year, using sampling techniques, with reference to the underlying records. We also inspected, on a sampling basis, cash receipts from customers during the year from pre-paid coupons and credits with reference to the underlying records. We checked the calculation of revenue recognised related to the utilised portion of prepaid coupons and credits by examining the underlying records on a sampling basis.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition for sales of goods through pre-paid coupons and credits (Continued) During the year ended 31 December 2018, revenue recognised for the sales of goods through pre-paid coupons and credits of HK$311,678,000 in relation to the Hong Kong retail business was recognised in the Group's consolidated statement of comprehensive income. As at 31 December 2018, the Group had receipts in advance of HK$145,060,000 relating to the Hong Kong retail business. We focused on this area due to the estimation of the utilisation pattern of pre-paid coupons and credits is inherently subjective and requires significant judgement and estimation which increase the risk of error or potential management bias.	We assessed the reasonableness of the expected breakage estimated by management with reference to the Group's historical data for utilisation of pre-paid coupons and credits. Based upon the above, we found that management had taken reasonable judgements that were supported by the available evidence in respect of the revenue recognition for sales of goods through pre-paid coupons and credits.

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 2018", "Chairman's Statement", "Business Segments Overview", "Management Discussion and Analysis", "Corporate Social Responsibility", "Awards and Recognition", "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 "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 "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, 28 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000 (Restated)
Continuing operations			
Revenue	5, 6	**783,383**	729,776
Cost of sales	8	**(307,036)**	(275,137)
Gross profit		**476,347**	454,639
Other (losses)/income	7	**(1,326)**	453
Selling and distribution costs	8	**(84,739)**	(77,215)
Administrative and operating expenses	8	**(380,232)**	(366,540)
Operating profit		**10,050**	11,337
Finance income	10	**100**	120
Finance costs	10	**(293)**	(937)
Finance costs, net	10	**(193)**	(817)
Profit before income tax		**9,857**	10,520
Income tax credit/(expense)	11	**2,888**	(149)
Profit for the year from continuing operations		**12,745**	10,371
Loss for the year from discontinued operation	12	**(4,437)**	(2,369)
Profit for the year		**8,308**	8,002
Profit/(loss) attributable to:			
Owners of the Company		**9,374**	8,106
Non-controlling interests		**(1,066)**	(104)
		8,308	8,002
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
— Currency translation differences for continuing operations		**(7,306)**	6,939
— Currency translation differences for discontinued operation		**(364)**	313
Other comprehensive (loss)/income, net of tax		**(7,670)**	7,252
Total comprehensive income for the year		**638**	15,254

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000 (Restated)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**1,909**	15,021
Non-controlling interests		**(1,271)**	233
		638	15,254
Total comprehensive income/(loss) attributable to owners of the Company arises from:			
Continuing operations		**6,710**	17,077
Discontinued operation		**(4,801)**	(2,056)
		1,909	15,021
Earnings per share for profit from continuing operations attributable to owners of the Company			
— Basic and diluted (HK cents per share)	13	**2.11**	1.60
Earnings per share for profit attributable to owners of the Company			
— Basic and diluted (HK cents per share)	13	**1.43**	1.24

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	16(a)	**56,059**	58,054
Property, plant and equipment	16(b)	**288,562**	236,843
Prepayments and deposits	20	**28,271**	28,273
Deferred income tax assets	25	**11,438**	8,753
		384,330	331,923
Current assets			
Inventories	17	**32,942**	29,899
Trade receivables	19	**43,356**	54,935
Prepayments, deposits and other receivables	20	**45,893**	30,603
Amount due from a related company	31	**690**	690
Tax recoverable		**1,715**	986
Pledged bank deposits	21	**–**	1,070
Cash and cash equivalents	21	**128,391**	113,588
		252,987	231,771
Total assets		**637,317**	563,694
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	**6,559**	6,559
Share premium	22	**214,999**	214,999
Reserves		**50,369**	44,655
		271,927	266,213
Non-controlling interests		**(233)**	1,038
Total equity		**271,694**	267,251

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs	28	**3,830**	4,994
Deferred income tax liabilities	25	**86**	441
Bank borrowings	30	**58,615**	31,659
		62,531	37,094
Current liabilities			
Trade payables	26	**40,450**	28,378
Accruals and other payables	27	**71,499**	59,640
Provision for reinstatement costs	28	**3,772**	1,529
Receipts in advance	29	**151,057**	146,663
Bank borrowings	30	**35,477**	20,783
Taxation payable		**837**	2,356
		303,092	259,349
Total liabilities		**365,623**	296,443
Total equity and liabilities		**637,317**	563,694
Net current liabilities		**(50,105)**	(27,578)
Total assets less current liabilities		**334,225**	304,345

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 57 to 133 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Tse Po Tat
Director

Wong Pui Chu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	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 2018									
Balance at 1 January 2018	**6,559**	**214,999**	**8,123**	**5,421**	**3,152**	**27,959**	**266,213**	**1,038**	**267,251**
Change in accounting policies (Note 2.2)	**–**	**–**	**–**	**–**	**–**	**8,265**	**8,265**	**–**	**8,265**
Restated total equity at the beginning of the financial year	**6,559**	**214,999**	**8,123**	**5,421**	**3,152**	**36,224**	**274,478**	**1,038**	**275,516**
Comprehensive income/(loss)									
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**9,374**	**9,374**	**(1,066)**	**8,308**
Other comprehensive loss									
Currency translation differences	**–**	**–**	**–**	**–**	**(7,465)**	**–**	**(7,465)**	**(205)**	**(7,670)**
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**–**	**(7,465)**	**9,374**	**1,909**	**(1,271)**	**638**
Transaction with owners									
2017 final and special dividends	**–**	**–**	**–**	**–**	**–**	**(4,460)**	**(4,460)**	**–**	**(4,460)**
Balance at 31 December 2018	**6,559**	**214,999**	**8,123**	**5,421**	**(4,313)**	**41,138**	**271,927**	**(233)**	**271,694**
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 63 to 133 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**74,947**	46,818
Income tax (paid)/refund		**(2,466)**	2,435
Net cash generated from operating activities		**72,481**	49,253
Cash flows from investing activities			
Purchase of property, plant and equipment		**(89,719)**	(39,623)
Purchase of land use rights		**(435)**	(9,372)
Proceeds from disposal of property, plant and equipment	32(b)	**444**	53
Reinstatement costs paid for shop and office premises		**(371)**	(225)
Decrease/(increase) in pledged bank deposits		**1,070**	(4)
Interest received		**102**	133
Net cash used in investing activities		**(88,909)**	(49,038)
Cash flows from financing activities			
Proceeds from bank borrowings	32(c)	**70,000**	15,000
Repayment of bank borrowings	32(c)	**(28,350)**	(30,313)
Dividend paid to the Company's shareholders	14	**(4,460)**	(4,985)
Interest paid	10	**(1,985)**	(1,573)
Net cash generated from/(used in) financing activities		**35,205**	(21,871)
Net increase/(decrease) in cash and cash equivalents		**18,777**	(21,656)
Effect of currency translation difference		**(3,974)**	4,084
Cash and cash equivalents at beginning of year		**113,588**	131,160
Cash and cash equivalents at end of year	21	**128,391**	113,588

The notes on pages 63 to 133 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together the "Group") are principally engaged in the retail, wholesale and distribution of bottled drinks, other herbal products, soups and snacks in Hong Kong and other parts of the People's Republic of China ("PRC" for the purpose of this set of 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 28 March 2019.

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$50,105,000 as at 31 December 2018 (2017: HK$27,578,000). 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$145,060,000 for the Hong Kong retail business (2017: HK$138,399,000) included in current liabilities, the Group would have net current assets of HK$94,955,000 as at 31 December 2018 (2017: HK$110,821,000). 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)

2.1.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	Investments in associates and joint ventures
Amendments to HKAS 40	Transfers of investment property
Annual Improvements Project	Annual Improvements 2014-2016 Cycle

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15, which are disclosed in note 2.2. The other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period.

2.1.2 New and amended standards not yet adopted

The following new standards and amendments have been issued but are not effective for the financial year beginning on or after 1 January 2018 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements Project (Amendment)	Annual Improvements 2015-2017 Cycle	1 January 2019
HKAS 1 and HKAS 8 (Amendment)	Definition of materials	1 January 2020
HKFRS 3 (Amendment)	Definition of Business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 New and amended standards not yet adopted (Continued)

The Group will adopt the above new standards and amendments to existing standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standards and amendments, none of which is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. 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.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$159,968,000. Of these commitments, approximately HK$23,000,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon the application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability both around HK$100,000,000 in respect of all these leases in the Group's consolidated statements of financial position unless they qualify for low value or short-term leases. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies

The following explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on consolidated financial statements

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Statement of financial position (extract)	31 December 2017 As originally presented HK$'000	HKFRS 9 HK$'000	HKFRS 15 HK$'000	1 January 2018 (Restated) HK$'000
Current assets				
Trade receivables	54,935	(578)	–	54,357
Total assets	563,694	(578)	–	563,116
Current liabilities				
Receipts in advance	(146,663)	–	8,843	(137,820)
Total liabilities	(296,443)	–	8,843	(287,600)
Equity				
Reserves	(44,655)	578	(8,843)	(52,920)
Total equity	(267,251)	578	(8,843)	(275,516)

(b) HKFRS 9 "Financial Instruments" – Impact on adoption

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The adjustments arising from the new impairment rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the opening of retained earnings on the consolidated statement of financial position on 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 "Financial Instruments" – Impact on adoption (Continued)

The adoption of HKFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Note	2018 HK$'000
Closing retained earnings 31 December 2017 – HKAS 39/HKAS 18		**27,959**
Increase in provision for impairment on trade receivables	(ii)	**(578)**
Opening retained earnings 1 January 2018 – HKFRS 9 (before restatement for HKFRS 15)		**27,381**

(i) *Classification and measurement*

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. All classes of financial assets and financial liabilities had the same carrying amounts in accordance with HKAS 39 and HKFRS 9 on 1 January 2018, and there is no change in the measurement categories of each material class of financial assets and liabilities.

(ii) *Impairment of financial assets*

The Group has three main types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables;
- cash and cash equivalents; and
- other financial assets measured at amortised costs (including deposits and other receivables and amount due from a related company).

The Group was required to revise its impairment methodology under HKFRS 9 for these classes of financial assets. The impact of the change in impairment methodology on the Group's retained earnings is disclosed in the table in note 2.2(b) above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(b) HKFRS 9 "Financial Instruments" – Impact on adoption (Continued)

(ii) Impairment of financial assets (Continued)

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was considered immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group has assessed the expected credit loss model applied to the trade receivables as at 1 January 2018 and this resulted in an increase of the provision for impairment of trade receivables on 1 January 2018 by HK$578,000. Details about the calculation of the allowance are disclosed in note 3.1(b).

Trade receivables are written off when there is no reasonable expectation of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the written-off.

Other financial assets measured at amortised cost

Other financial assets at amortised cost include deposits and other receivables and amount due from a related company. The Group has applied the expected credit loss model to these financial assets as at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

(c) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. As such, comparatives for the 2017 financial year would not be restated but contracts which have remaining obligations as of the effective date had resulted in an adjustment to the opening balance of the retained earnings as at 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(c) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption (Continued)

	HKAS 18 carrying amount 31 December 2017 HK$'000	Remeasurement HK$'000	HKFRS 15 carrying amount 1 January 2018 HK$'000
Receipts in advance	146,663	(8,843)	137,820

The impact on the Group's retained earnings as at 1 January 2018 is as follows:

	2018 HK$'000
Opening retained earnings 1 January 2018 – after HKFRS 9 restatement	**27,381**
Recognition of revenue for pre-paid coupons and credits	**8,843**
Opening retained earnings 1 January 2018 – HKFRS 9 and HKFRS 15	**36,224**

(i) Accounting for pre-paid coupons and credits

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.

(ii) Accounting for customer loyalty programme

Deferred revenue represents outstanding customer loyalty credits, which are accounted for as a separate component of the sales transaction in which they are granted.

Under HKFRS 15, deferred revenue is recognised as a contract liability, which is included in "accruals and other payables", and revenue is recognised when the rewards are redeemed or expired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(c) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption (Continued)

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if this superseded standard had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 HK$'000	Hypothetical amounts under HKAS 18 HK$'000	Difference: Estimated impact of adoption of HKFRS 15 in 2018 HK$'000
Line items in the consolidated statement of comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenue	783,383	783,506	(123)
Gross profit	476,347	476,470	(123)
Operating profit	10,050	10,173	(123)
Profit before income tax	9,857	9,980	(123)
Profit for the year	8,308	8,431	(123)
Profit attributable to owners of the Company	9,374	9,497	(123)
Earnings per share for profit attributable to owners of the Company			
– Basic and diluted (HK cents per share)	1.43	1.45	(0.02)
Total comprehensive income for the year	638	761	(123)
Total comprehensive income attributable to owners of the Company	1,909	2,032	(123)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(c) HKFRS 15 "Revenue from Contracts with Customers" – Impact of adoption (Continued)

	Amounts reported in accordance with HKFRS 15 HK$'000	Hypothetical amounts under HKAS 18 HK$'000	Difference: Estimated impact of adoption of HKFRS 15 in 2018 HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Receipts in advance	151,057	159,777	(8,720)
Total current liabilities	303,092	311,812	(8,720)
Net current liabilities	(50,105)	(58,825)	8,720
Total assets less current liabilities	334,225	325,505	8,720
Net assets	271,694	262,974	8,720
Reserves	50,369	41,649	8,720
Total equity attributable to owners of the Company	271,927	263,207	8,720
Total equity	271,694	262,974	8,720
Line items in the reconciliation of profit before income tax to cash generated from operations for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Profit before income tax	9,857	9,980	(123)
Increase in receipts in advance	4,394	13,114	(8,720)

The difference arise as a result of the changes in accounting policy described above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries

2.3.1 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.

(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)

2.3 Subsidiaries (Continued)

2.3.1 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.

2.3.2 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.

2.4 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.

2.5 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)/income'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 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.

2.6 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)

2.6 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)/income' in the consolidated statement of comprehensive income.

2.7 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.

2.8 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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.

2.9 Discontinued operation

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operation are presented separately in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("FVOCI"), or through profit or loss); and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) 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. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(c) Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

The Group classifies all of its debt instruments to be measured at amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'other (losses)/income' together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in 'other (losses)/income' in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 19 for further details.

(e) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

(e) Accounting policies applied until 31 December 2017 (Continued)

(i) 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' and 'cash and cash equivalents' in the consolidated statement of financial position.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, i.e. the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated statement of comprehensive income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iv) Impairment

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 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.

2.12 Inventories

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

2.13 Trade and other receivables

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

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 19 for further information about the Group's accounting for trade receivables and note 3.1(b) for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Trade payables

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

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

2.17 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated 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.

2.18 Deferred revenue

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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)

2.20 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the 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.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share based payments

The Group operates an equity-settled, share based compensation plan, 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).

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.

2.22 Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Provisions for reinstatement cost

Provision for reinstatement cost represents the present value of the estimated cost for the restoration work of the Group's leased retail shops agreed to be carried out upon the expiry of the relevant leases using a risk-free pre-tax interest rate. The provision has been determined by the directors based on their best estimates. The related reinstatement costs, upon initial recognition, have been included as leasehold improvement in the consolidated statement of financial position (see Note 2.6).

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of rebates and discounts. Rebates and discounts granted to customers are classified as a reduction of revenue. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities as described below.

(a) Sales of goods – retail

The Group operates a chain of retail stores in Hong Kong and the PRC selling bottled drinks and other herbal products, soups and snacks. Revenue from the sale of goods is recognised when the Group sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the products. As part of the Group's ordinary activities for the retail business, pre-paid coupons and credits 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. Any 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.

(b) Sales of goods – wholesale

The Group is engaged in the wholesale and distribution of bottled drinks in Hong Kong and the PRC. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition (Continued)

(c) Sales of goods – customer loyalty programme

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire after the initial sale.

A contract liability is recognised until the points are redeemed or expire, which is included in "accruals and other payables" on the consolidated statement of financial position.

(d) Interest income is recognised on a time-proportion basis using the effective interest method.

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

2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated statement of comprehensive income on a straight-line basis over the period of lease.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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 2018, if RMB had strengthened/weakened by 5% against Hong Kong dollars with all other variables held constant, pre-tax profit for the year would have been approximately HK$957,000 higher/lower (2017: HK$22,000 higher/lower), respectively, mainly as a result of foreign exchange gains/losses on translation of RMB denominated bank deposits, cash and cash equivalents and balances with related parties.

(ii) Cash flow interest rate risk

The Group's cash flow interest rate risk arises from bank balances and bank borrowings at floating interest rates.

Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The cash deposits placed with banks generate interest at the prevailing market interest rates.

As at 31 December 2018, 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$241,000 higher/lower (2017: HK$317,000 higher/lower), respectively, mainly attributable to the Group's exposure to interest rates on its variable rate bank balances and bank borrowings.

(b) Credit risk

(i) Risk management

The credit risk of the Group mainly arises from trade receivables, deposits and other receivables, amount due from a related party 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. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as at 31 December 2018.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(i) Risk management (Continued)

Majority of the Group's revenue is received from individual customers in relation to sales of bottled drinks and other herbal products, soups and snacks for the retail business and are transacted in cash or credit cards. The Group's trade receivables arise primarily from sales of bottled drinks to wholesalers and distributors. As at 31 December 2018, top five customers of the Group accounted for approximately 57% (2017: 53%) to the total 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 these 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 these customers saved for the debtor related to the impaired trade receivable disclosed below. 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 consolidated financial statements.

(ii) Impairment of financial assets

The Group has three main types of financial assets that are subject to the expected credit loss model:

– trade receivables;

– cash and cash equivalents; and

– other financial assets measured at amortised costs (including deposits and other receivables and amount due from a related company).

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group measures the expected credit losses on a combination of both individual and collective basis.

Measurement of expected credit loss on individual basis

Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2018, the balance of loss allowance in respect of these individually assessed receivables was HK$2,214,000.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of expected credit loss on individual basis (Continued)

The following table presents the balances of gross carrying amount and the loss allowance in respect of the individually assessed receivables as at 31 December 2018:

	2018 HK$'000
Gross carrying amount	**2,479**
Loss allowance	**(2,214)**
Net carrying amount	**265**

Measurement of expected credit loss on collective basis

To measure the expected credit losses, trade receivables have been grouped based on the nature of customer accounts, shared credit risk characteristics and the days past due.

The Group divided trade receivables into two categories by the business location. Category 1 is for customers conducting wholesale business in the PRC. Category 2 is for customers conducting wholesale business in Hong Kong and other regions. With different types of customers, the Group calculated the expected loss rate respectively.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows:

Category 1: Customers conducting wholesale business in the PRC

	Current HK$'000	1 – 30 days past due HK$'000	31 – 90 days past due HK$'000	Over 90 days past due HK$'000	Total HK$'000
31 December 2018					
Expected loss rate	**0%**	**0%**	**0%**	**0%**	
Gross carrying amount					
– trade receivables	**1,673**	**1,005**	**211**	**2,875**	**5,764**
Loss allowance	**–**	**–**	**–**	**–**	**–**
1 January 2018					
Expected loss rate	2.0%	3.0%	5.0%	8.0%	
Gross carrying amount					
– trade receivables	7,085	3,317	2,108	2,117	14,627
Loss allowance	(142)	(100)	(105)	(170)	(517)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of expected credit loss on collective basis (Continued)

Category 2: Customers conducting wholesale business in Hong Kong and other regions

	Current HK$'000	1 – 30 days past due HK$'000	31 – 90 days past due HK$'000	Over 90 days past due HK$'000	Total HK$'000
31 December 2018					
Expected loss rate	**0%**	**0.3%**	**0.7%**	**7.1%**	
Gross carrying amount					
– trade receivables	**24,632**	**8,038**	**3,620**	**618**	**36,908**
Loss allowance	**–**	**(28)**	**(24)**	**(44)**	**(96)**
1 January 2018					
Expected loss rate	0%	0.2%	0.4%	3.5%	
Gross carrying amount					
– trade receivables	26,255	8,250	2,887	834	38,226
Loss allowance	–	(20)	(12)	(29)	(61)

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other financial assets at amortised costs

Management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit loss which is zero.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding from an adequate amount of committed credit facilities from leading banks and the ability to close out market position.

The Group maintains liquidity by a number of sources including orderly realisation of short-term financial assets, receivables and certain assets that the Group considers appropriate and long term financing including long-term borrowings are also considered by the Group in its capital structuring. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, committed credit lines available and interest bearing borrowings which enable the Group to continue its business for the foreseeable future.

The table below analyses the non-derivative financial liabilities of the Group into relevant maturity groupings based on the remaining period at the 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.

	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 2018				
Trade payables	**40,450**	**–**	**–**	**40,450**
Accruals and other payables	**34,452**	**–**	**–**	**34,452**
Bank borrowings	**36,555**	**29,065**	**31,062**	**96,682**
	111,457	**29,065**	**31,062**	**171,584**
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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group uses bank borrowings to finance its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (include bank borrowings and obligation under finance lease) 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 gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 **HK$'000**	2017 HK$'000
Bank borrowings (Note 30)	**94,092**	52,442
Less: Pledged bank deposits and cash and cash equivalents (Note 21)	**(128,391)**	(114,658)
Net cash	**(34,299)**	(62,216)
Total equity	**271,694**	267,251
Total capital	**237,395**	205,035
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 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.

(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 the higher of an asset's fair value less costs of disposal and 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 follows the guidance of HKFRS 9 to determine when trade and other receivables are impaired. This determination requires significant judgment and estimation based on assumptions about risk of default and expected loss rates. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health and collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macroeconomic indicators etc. Details of the assumptions and inputs used are discussed in note 3.1(b).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are difference from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

(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 2.24(b), 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 2018, unsettled balances for sales rebates and discounts of HK$2,252,000 (2017: HK$1,314,000) and HK$10,773,000 (2017: HK$16,229,000) are recognised as accruals and as a reduction against trade receivables, respectively.

(h) Revenue

Revenue recognition on sales of goods through pre-paid coupons and credits is dependent on the estimation of the utilisation pattern of coupons and credits. Based on the Group's historical experience, the Group makes estimates of an expected amount of breakage. Actual utilisation may be higher or lower than those estimated at the end of each reporting period, which would affect the revenue and profit recognised in future year.

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 two reportable segments based on the Group's business model, namely the (1) Hong Kong Retail and (2) Wholesale.

During the year ended 31 December 2018, the Group discontinued the retail business in the PRC which was previously included in the "PRC Retail" segment; the comparatives information has been restated.

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 2018 and 2017.

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 nature of the business. The assets are determined based on where the assets are located. Information relating to segment liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

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

5 SEGMENT INFORMATION (Continued)

The segment information provided to the executive directors for the continuing operations for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December 2018		
	Hong Kong Retail HK$'000	Wholesale HK$'000	Total HK$'000
Segment revenue	564,276	227,994	792,270
Less: Inter-segment revenue	(6,384)	(2,503)	(8,887)
Revenue from external customers	557,892	225,491	783,383
Segment results	74,591	4,371	78,962
Corporate expenses			(51,540)
Relocation of factories related expenses			(17,372)
Finance costs, net			(193)
Profit before income tax			9,857
Income tax credit			2,888
Profit for the year			12,745
Other segment items:			
Capital expenditure	15,443	70,506	85,949
Depreciation and amortisation	21,296	8,242	29,538
Losses on disposal of property, plant and equipment	154	–	154
Provision/(reversal of provision) for impairment on trade receivables	35	(33)	2
Interest income	29	71	100

5 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2017		
	Hong Kong Retail HK$'000	Wholesale HK$'000	Total HK$'000 (Restated)
Segment revenue	518,767	217,854	736,621
Less: Inter-segment revenue	(2,618)	(4,227)	(6,845)
Revenue from external customers	516,149	213,627	729,776
Segment results	50,721	6,493	57,214
Corporate expenses			(45,877)
Finance costs, net			(817)
Profit before income tax			10,520
Income tax expense			(149)
Profit for the year			10,371
Other segment items:			
Capital expenditure	9,882	36,783	46,665
Depreciation and amortisation	21,683	8,412	30,095
Losses on disposal of property, plant and equipment	85	12	97
Provision for impairment on trade receivables	24	–	24
Interest income	45	75	120

5 SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2018 and 2017 are as follows:

	Hong Kong Retail HK$'000	Wholesale HK$'000	Elimination HK$'000	Total HK$'000
As at 31 December 2018				
Segment assets	**346,452**	**254,640**	**(901)**	**600,191**
Amount due from a related company				**690**
Tax recoverable				**1,715**
Deferred income tax assets				**11,438**
Corporate assets				**16,454**
Discontinued operation				**6,829**
Total assets				**637,317**
As at 31 December 2017				
Segment assets	333,376	208,122	(4,243)	537,255
Amount due from a related company				690
Tax recoverable				986
Deferred income tax assets				8,753
Corporate assets				8,947
Discontinued operation				7,063
Total assets				563,694

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

5 SEGMENT INFORMATION (Continued)

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 2018, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2017: 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	
	2018	2017
	HK$'000	HK$'000
		(Restated)
Hong Kong	**677,550**	632,672
The PRC	**88,891**	81,216
Overseas countries	**16,942**	15,888
	783,383	729,776

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2018 and 2017.

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	
	2018	2017
	HK$'000	HK$'000
		(Restated)
Hong Kong	**396,590**	381,137
The PRC	**203,601**	156,118
	600,191	537,255

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Hong Kong	**230,480**	240,436
The PRC	**142,412**	82,734
	372,892	323,170

6 REVENUE

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

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
		(Restated)
Sale of goods	**759,717**	709,900
Revenue recognised upon expiry of pre-paid coupons and credits (Note 29)	**23,666**	19,876
	783,383	729,776

(a) Revenue recognition in relation to contract liabilities

As at 31 December 2018, receipts in advance and deferred revenue amounting to HK$151,057,000 and HK$1,626,000 respectively.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward receipts in advance and deferred revenue:

	2018
	HK$'000
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	**139,086**

(b) Unsatisfied long-term contracts

The Group selected to choose a practical expedient and omit disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

7 OTHER (LOSSES)/INCOME

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
		(Restated)
Insurance claim	**161**	408
Service fee	**362**	–
Exchange difference	**(1,213)**	(138)
Losses on disposal of property, plant and equipment (Note)	**(1,388)**	(97)
Others	**752**	280
Total other (losses)/income	**(1,326)**	453

Note: Included in this balance, a total of HK$1,234,000 is derived from the relocation of production plant during the year.

8 EXPENSES BY NATURE

		Year ended 31 December	
		2018	2017
	Note	**HK$'000**	HK$'000 (Restated)
Cost of inventories sold		**235,515**	201,856
Operating lease rental in respect of retail outlets			
— Minimum rental		**106,134**	103,921
— Contingent rental		**176**	297
Operating lease rental in respect of storage spaces and office premises		**19,909**	20,658
Advertising and promotional expenditure		**30,350**	28,592
Amortisation of leasehold land	16(a)	**1,594**	1,416
Depreciation of property, plant and equipment		**27,944**	28,679
Communication and utilities		**33,463**	34,108
Employee benefit expenses (including directors' emoluments)	9	**229,451**	231,731
Restructuring costs (Note)		**16,138**	–
Provision/(reversal of provision) for obsolete inventories	17	**46**	(446)
Provision for impairment on trade receivables	19	**2**	24
Legal and professional fees		**4,196**	3,768
Auditors' remuneration			
— Audit services		**2,880**	2,850
— Non-audit services		**169**	259
Tools, repair and maintenance expenses		**7,974**	9,561
Transportation and distribution expenses		**37,591**	34,024
Others		**18,475**	17,594
Total cost of sales, selling and distribution costs and administrative and operating expenses		**772,007**	718,892

Note: The restructuring costs primarily include termination benefits of HK$14,205,000 paid to employees as a result of the relocation of production plant during the year.

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
		(Restated)
Wages, salaries and bonuses	**211,866**	212,550
Medical and other employee benefits	**7,739**	9,455
Retirement benefit costs – defined contribution plans	**9,846**	9,726
	229,451	231,731

(a) Five highest paid individuals

For the year ended 31 December 2018, the five individuals whose emoluments were the highest in the Group include four directors (2017: four directors), whose emoluments are reflected in the analysis shown in Note 36. The emoluments paid/payable to the remaining individual (2017: one individual) are as follows:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Wages, salaries and bonuses and benefits in kind	**1,104**	982
Bonuses	**144**	140
Retirement benefit costs – defined contribution plans	**18**	18
	1,266	1,140

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

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

	Number of individuals	
	2018	2017
Emolument band		
HK$1,000,001 to HK$1,500,000	**1**	1

10 FINANCE COSTS, NET

	Year ended 31 December 2018 HK$'000	2017 HK$'000 (Restated)
Finance income:		
— Interest income	**100**	120
Finance costs:		
— Interest expenses on borrowings	**(1,966)**	(1,552)
— Interest expenses on finance leases	**(19)**	(21)
	(1,985)	(1,573)
Amount capitalised (Note (a))	**1,692**	636
	(293)	(937)
Finance costs, net	**(193)**	(817)

Note:

(a) The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 2.48% (2017: 2.84%).

11 INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2018 (2017: 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% (2017: 25%).

11 INCOME TAX (CREDIT)/EXPENSE (Continued)

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

	Year ended 31 December 2018 HK$'000	2017 HK$'000
Current tax:		
PRC CIT on profits for the year	**68**	216
Under/(over)-provision in prior years	**155**	(206)
Deferred income tax (Note 25)	**(3,043)**	329
Income tax (credit)/expense	**(2,820)**	339
Income tax (credit)/expense is attributable to:		
Profit from continuing operations	**(2,888)**	149
Loss from discontinued operation (Note 12)	**68**	190
	(2,820)	339

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 2018 HK$'000	2017 HK$'000
Profit before income tax from continuing operations	**9,857**	10,520
Loss before income tax from discontinued operation	**(4,369)**	(2,179)
Profit for the year before income tax	**5,488**	8,341
Tax calculated at 16.5%	**906**	1,376
Effect of different tax rates applicable to subsidiaries in the respective locations	**(1,454)**	(971)
Income not subject to tax	**(6)**	(69)
Expenses not deductible for tax purposes	**4,578**	1,799
Utilisation of previously unrecognised tax loss and tax loss not recognised, net	**2,778**	(1,590)
Recognition of previous unrecognised deferred tax loss	**(9,777)**	–
Under/(over)-provision of income tax expense in prior years	**155**	(206)
Income tax (credit)/expense	**(2,820)**	339

12 DISCONTINUED OPERATION

During the year ended 31 December 2018, the Group discontinued the retail business in the PRC. The results of the discontinued operation for the year ended 31 December 2018 and 2017 are presented below:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Revenue	**7,704**	12,083
Other (losses)/income	**(439)**	154
Cost of sales and expenses	**(11,634)**	(14,416)
Loss before income tax	**(4,369)**	(2,179)
Income tax expense	**(68)**	(190)
Loss from discontinued operation	**(4,437)**	(2,369)
Currency translation differences	**(364)**	313
Total comprehensive loss arises from discontinued operation	**(4,801)**	(2,056)

Loss for the year of discontinued operation has been arrived at after charging:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Expenses relating to closure of business		
– Losses on disposal of property, plant and equipment	**450**	19
– Termination benefits	**641**	–
– Others	**522**	–
Depreciation of property, plant and equipment	**739**	769

12 DISCONTINUED OPERATION (Continued)

The net cash flows incurred by the discontinued operation are as follow:

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Net cash (used in)/generated from operating activities	**(2,414)**	1,708
Net cash generated from/(used in) investing activities	**1,911**	(1,258)
Net (decrease)/increase in cash generated from discontinued operation	**(503)**	450

13 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	
	2018	2017
Profit from continuing operations attributable to owners of the Company (HK$'000)	**13,811**	10,475
Loss from discontinued operation attributable to owners of the Company (HK$'000)	**(4,437)**	(2,369)
Profit for the purpose of basic and diluted earnings per share from continuing and discontinued operations	**9,374**	8,106
Weighted average number of ordinary shares for the calculation of basic earnings per share (thousands)	**655,944**	655,944
Earnings per share for profit from continuing operations attributable to owners of the Company		
— Basic earnings per share (HK cents)	**2.11**	1.60
— Diluted earnings per share (HK cents)	**2.11**	1.60
Loss per share for loss from discontinued operation attributable to owners of the Company		
— Basic loss per share (HK cent)	**(0.68)**	(0.36)
— Diluted loss per share (HK cent)	**(0.68)**	(0.36)
Earnings per share for profit attributable to owners of the Company		
— Basic earnings per share (HK cents)	**1.43**	1.24
— Diluted earnings per share (HK cents)	**1.43**	1.24

13 EARNINGS PER SHARE (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted earnings per share for the year ended 31 December 2018 and 2017 equal basic earnings per share as there were no outstanding share options as at both years end.

14 DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends attributable to the year		
Proposed final dividend of HK0.43 cent (2017: HK0.37 cent) per ordinary share	**2,821**	2,427
Proposed special dividend of HK0.36 cent (2017: HK0.31 cent) per ordinary share	**2,361**	2,033
	5,182	4,460
Dividends paid during the year	**4,460**	4,985

A final dividend and a special dividend in respect of the year ended 31 December 2018 of HK0.43 cent and HK0.36 cent per ordinary share respectively, amounting to a total dividend of HK$5,182,000 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 2019.

15 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 2018	2017
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 and trading	Limited liability company	HK$10,000	60%	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 herbal drinks	Limited liability company	HK$6,000,000	100%	100%
Hung Fook Tong Real Property Limited (Company dissolved by deregistration on 6 April 2018)	Hong Kong, 22 July 1988	Property investment	Limited liability company	HK$30,000	–	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	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%

15 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 2018	2017
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	RMB6,300,000	**100%**	100%
Hung Fook Tong Services Limited	Hong Kong, 4 October 1994	Licence holding for Hung Fook Tong (Herbal Tea) Limited and Hung Fook Tong Franchise System Management Limited	Limited liability company	HK$3	**100%**	100%
Gold Work Limited	Hong Kong, 1 April 2010	Investment holding	Limited liability company	HK$10,000	**100%**	100%
Goldmark Plastic Bottle Manufacturing Limited	Hong Kong, 11 October 2002	Investment holding	Limited liability company	HK$100,000	**51%**	51%

15 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 2018	2017
Indirectly held by the Company (Continued)						
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	RMB10,703,916	**100%**	100%
Hung Fook Tong Herbal Tea and Food (Shanghai) Company Limited 鴻福堂涼茶食品(上海)有限公司	PRC, 8 September 2011	Wholesaling and retailing of herbal products	Limited liability company	RMB1,000,000	**100%**	100%
Ming Tong Catering Management (Shanghai) Company Limited 鳴堂餐飲管理(上海)有限公司	PRC, 12 September 2013	Restaurant management and import and export of general merchandise	Limited liability company	RMB1,000,000	**100%**	100%
Taclon Industries Limited ("Taclon")	Hong Kong, 15 December 1972	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	Holding company of the joint venture business in Shanghai	Limited liability company	HK$1	**100%**	100%
Gold Medal Development Limited	Hong Kong, 20 December 2013	Shop operations management for retail shop business in Shanghai	Limited liability company	HK$6,500,000	**100%**	100%

15 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 2018	2017
Indirectly held by the Company (Continued)						
Hung Tong Catering Management (Shanghai) Company Limited 鴻堂餐飲管理（上海）有限公司	PRC, 17 June 2014	Restaurant management and wholesaling of general merchandise	Limited liability company	RMB5,013,918	100%	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	RMB50,000,000	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 2018 are related to Goldmark Plastic Bottle Manufacturing Limited and Apace Logistics and Supply Company Limited, which the directors consider not material to the Group.

16 LEASEHOLD LAND AND PROPERTY, PLANT AND EQUIPMENT

(a) Leasehold land and land use rights

The Group's interests 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:

	2018 HK$'000	2017 HK$'000
At 1 January	58,054	48,387
Additions	992	9,798
Amortisation (Note 8)	(1,594)	(1,416)
Exchange difference	(1,393)	1,285
At 31 December	56,059	58,054

Amortisation of leasehold land and land use rights of HK$1,594,000 for the year ended 31 December 2018 (2017: HK$1,416,000) has been charged in 'administrative and operating expenses'.

16 LEASEHOLD LAND AND PROPERTY, PLANT AND EQUIPMENT

(Continued)

(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 equipment HK$'000	Total HK$'000
Year ended 31 December 2018								
Opening net book amount	121,640	23,943	23,366	5,452	56,266	1,646	4,530	236,843
Additions	994	60,716	7,924	352	11,122	394	3,474	84,976
Disposals (Note 32(b))	–	–	(225)	(35)	(1,785)	–	(237)	(2,282)
Depreciation	(4,659)	–	(7,791)	(827)	(12,502)	(586)	(2,318)	(28,683)
Exchange difference	(32)	(1,212)	(6)	–	(996)	1	(47)	(2,292)
Closing net book amount	117,943	83,447	23,268	4,942	52,105	1,455	5,402	288,562
At 31 December 2018								
Cost	137,727	83,447	98,396	13,823	137,486	3,268	22,435	496,582
Accumulated depreciation and impairment	(19,784)	–	(75,128)	(8,881)	(85,381)	(1,813)	(17,033)	(208,020)
Net book amount	117,943	83,447	23,268	4,942	52,105	1,455	5,402	288,562

	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 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	(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$7,974,000 (2017: HK$8,658,000) has been charged in 'cost of sales', HK$20,700,000 (2017: HK$20,720,000) in 'administrative and operating expenses' and HK$9,000 (2017: HK$70,000) in 'selling and distribution costs'.

17 INVENTORIES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Raw materials	**11,124**	12,157
Work in process	**6,313**	5,830
Finished goods	**15,910**	12,300
	33,347	30,287
Less: Provision for obsolete inventories	**(405)**	(388)
	32,942	29,899

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

	2018	2017
	HK$'000	HK$'000
At 1 January	**388**	876
Provision/(reversal of provision) for obsolete inventories (Note 8, 32(a))	**46**	(446)
Written off of provision for obsolete inventories	**(29)**	(42)
At 31 December	**405**	388

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to HK$231,764,000 (2017: HK$197,337,000). There was no inventory written down during the year (2017: Nil).

18 FINANCIAL INSTRUMENTS BY CATEGORIES

The Group holds the following financial instruments:

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
Financial assets			
Financial assets at amortised costs			
— Trade receivables	19	**43,356**	54,935
— Deposits and other receivables (excluding prepayments and value-added tax recoverable)		**39,976**	39,335
— Amount due from a related company	31	**690**	690
— Pledged bank deposits	21	**–**	1,070
— Cash and cash equivalents	21	**128,391**	113,588
Financial liabilities			
Liabilities at amortised cost			
— Trade payables	26	**40,450**	28,378
— Accruals and other payables (excluding non-financial liabilities and accruals for employee benefit expenses)		**34,452**	33,872
— Bank borrowings	30	**94,092**	52,442

The Group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

19 TRADE RECEIVABLES

	As at 31 December 2018 HK$'000	2017 HK$'000
Trade receivables	**45,666**	57,348
Less: Provision for impairment of trade receivables	**(2,310)**	(2,413)
Trade receivables, net	**43,356**	54,935

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days. As at 31 December 2018 and 2017, the ageing analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December 2018 HK$'000	2017 HK$'000
Less than 30 days	**18,487**	23,320
31-90 days	**22,722**	26,459
Over 90 days	**2,147**	5,156
	43,356	54,935

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the aging from billing. See note 3.1(b) for further information about expected credit loss provision.

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

	2018 HK$'000	2017 HK$'000
At 1 January	**2,413**	5,540
Change in accounting policy	**578**	–
Restated total at 1 January	**2,991**	5,540
Provision for impairment of trade receivables (Note 8)	**2**	24
Receivables written off during the year as uncollectible	**(602)**	(3,268)
Exchange difference	**(81)**	117
At 31 December	**2,310**	2,413

19 TRADE RECEIVABLES (Continued)

The creation and release of provision for impaired receivables have been included in 'administrative and operating expenses' in the consolidated statement of comprehensive income. See note 3.1(b) for information about how impairment losses are calculated.

The Group does not hold any collateral as security.

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
HK$	**38,011**	40,254
RMB	**5,345**	14,681
	43,356	54,935

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Non-current portion		
Prepayments for property, plant and equipment	**9,923**	4,425
Rental and other deposits	**18,348**	23,848
Total	**28,271**	28,273
Current portion		
Prepayments	**8,678**	5,917
Rental and other deposits	**18,766**	13,229
Value-added tax recoverable	**15,587**	9,199
Amount due from a non-controlling interest	**1,000**	1,000
Other receivables	**1,862**	1,258
Total	**45,893**	30,603

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	
	2018	2017
	HK$'000	HK$'000
HK$	**34,385**	33,623
RMB	**21,178**	14,911
	55,563	48,534

21 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Pledged bank deposits (Note (a))	**–**	1,070
Cash and cash equivalents	**128,391**	113,588
Total	**128,391**	114,658

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	
	2018	2017
	HK$'000	HK$'000
HK$	**93,317**	75,359
USD	**1,449**	201
RMB	**33,607**	39,077
Others	**18**	21
	128,391	114,658

(c) **Significant restrictions**
Cash and cash equivalents and pledged deposits of HK$22,162,000 (2017: HK$34,317,000) 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$'000
Authorised:		
At 31 December 2017 and 31 December 2018	1,000,000,000	10,000

	Number of shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000
Issued and fully paid:			
At 1 January 2017, 31 December 2017 and 31 December 2018	655,944,000	6,559	214,999

23 RESERVES

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.

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 2018, retained earnings comprised statutory reserves fund amounting to HK$1,295,000 (2017: HK$1,308,000).

24 SHARE BASED PAYMENTS

A share option scheme was approved on 11 June 2014 by the shareholders of the Company. The subscription price per share shall be determined by the Board of Directors and notified to the grantee at the time of offer of the option. 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. There was no share option granted after approval till 31 December 2018.

25 DEFERRED INCOME TAX

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Deferred income tax assets		
— to be recovered after more than 12 months	**15,974**	17,874
— to be recovered within 12 months	**6,202**	62
	22,176	17,936
Deferred income tax liabilities		
— to be recovered after more than 12 months	**10,824**	9,624

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	
	2018	2017
	HK$'000	HK$'000
Deferred income tax assets – net	**11,438**	8,753
Deferred income tax liabilities – net	**86**	441

25 DEFERRED INCOME TAX (Continued)

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

	HK$'000
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
At 1 January 2018	**8,312**
Credited to the consolidated statement of comprehensive income (Note 11)	**3,043**
Exchange difference	**(3)**
At 31 December 2018	**11,352**

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 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
At 1 January 2018	**5,282**	**12,654**	**17,936**
(Charged)/credited to consolidated statement of comprehensive income	**(860)**	**5,103**	**4,243**
Exchange difference	**–**	**(3)**	**(3)**
At 31 December 2018	**4,422**	**17,754**	**22,176**

25 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities

	Accumulated tax depreciation and others HK$'000
At 1 January 2017	(10,529)
Credited to consolidated statement of comprehensive income	905
At 31 December 2017	(9,624)
At 1 January 2018	**(9,624)**
Charged to consolidated statement of comprehensive income	**(1,200)**
At 31 December 2018	**(10,824)**

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$6,617,000 (2017: HK$14,247,000) as at 31 December 2018 in respect of tax losses in Hong Kong and in the PRC.

The Group has unrecognised tax losses of HK$6,633,000 (2017: HK$26,932,000) as at 31 December 2018, to carry forward against future profit in Hong Kong. These tax losses aforementioned 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$22,090,000 (2017: HK$39,213,000) as at 31 December 2018, to carry forward against future profit in the PRC. These tax losses expire in the following years:

	As at 31 December	
	2018 HK$'000	2017 HK$'000
Expiry in year:		
2018	**–**	362
2019	**5,124**	5,324
2020	**4,469**	4,709
2021	**200**	13,389
2022	**399**	15,429
2023	**11,898**	–
	22,090	39,213

As at 31 December 2018, management is of the view that undistributed earnings of certain subsidiaries in the PRC totalling HK$90,000 (2017: HK$9,840,000), are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of HK$4,500 (2017: HK$492,000) have not been recognised as at 31 December 2018, 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	
	2018	2017
	HK$'000	HK$'000
Trade payables	**40,450**	28,378

As at 31 December 2018, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
0 to 30 days	**18,826**	14,688
31 to 60 days	**14,538**	11,150
61 to 90 days	**4,355**	2,457
Over 90 days	**2,731**	83
	40,450	28,378

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
HK$	**18,018**	16,165
RMB	**22,432**	12,213
	40,450	28,378

27 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Accruals for employee benefit expenses	**20,118**	23,188
Provision for restructuring costs	**13,051**	–
Accruals for marketing and promotional expenses	**1,550**	1,461
Accruals for sales rebate	**2,252**	1,314
Rental and related expenses payable	**4,601**	5,300
Office and utilities expenses payable	**2,637**	2,811
Deferred revenue	**1,626**	1,266
Consideration payable for property, plant and equipment acquired	**2,983**	4,189
Accruals for transportation and delivery charges	**4,411**	5,846
Accruals for audit fee	**2,616**	2,557
Other accruals and other payables	**15,654**	11,708
	71,499	59,640

27 ACCRUALS AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
HK$	**46,353**	46,553
RMB	**25,146**	13,087
	71,499	59,640

28 PROVISION FOR REINSTATEMENT COSTS

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Non-current		
Provision for reinstatements costs	**3,830**	4,994
Current		
Provision for reinstatements costs	**3,772**	1,529
	7,602	6,523

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

	2018	2017
	HK$'000	HK$'000
At 1 January	**6,523**	6,398
Additional provision during the year	**1,633**	320
Utilisation	**(554)**	(195)
At 31 December	**7,602**	6,523

29 RECEIPTS IN ADVANCE

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Receipts in advance	**151,057**	146,663

29 RECEIPTS IN ADVANCE (Continued)

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

	Note	2018 HK$'000	2017 HK$'000
At 1 January		**146,663**	133,329
Change in accounting policy		**(8,843)**	–
Restated total at 1 January		**137,820**	133,329
Receipts from sales of pre-paid coupons and credits during the year		**328,862**	306,629
Revenue recognised upon the redemption of products by customers	(a)	**(291,617)**	(273,566)
Revenue recognised upon expiry of pre-paid coupons and credits (Note 6)	(b)	**(23,666)**	(19,876)
Exchange differences		**(342)**	147
At 31 December		**151,057**	146,663

Notes:

(a) The amounts represent revenue recognised in the consolidated statement of comprehensive income as a result of redemption of products by customers during the year. Pursuant to the adoption of HKFRS 15 with effect from 1 January 2018 as set out in more details in Note 2.2(c), the figure in the current year has included the relevant proportion of the expected breakage amount.

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

30 BANK BORROWINGS

	As at 31 December	
	2018 HK$'000	2017 HK$'000
Bank loans:		
Portion due for repayment within 1 year	**35,477**	20,783
Portion due for repayment after 1 year but within 5 years without repayment on demand clause	**58,615**	31,659
	94,092	52,442

30 BANK BORROWINGS (Continued)

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Bank loans:		
Within 1 year	**35,477**	20,783
Between 1 and 2 years	**28,274**	17,718
Between 2 and 5 years	**30,341**	13,941
	94,092	52,442

As at 31 December 2017, 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 2.1% as at 31 December 2018 (2017: 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, Prestigious Time Limited and YITAO Investments Limited (all incorporated in the British Virgin Islands), which collectively owns 60.07% of the Company's shares as at 31 December 2018. The remaining 39.93% of the shares are widely held. The ultimate controlling parties of Think Expert Investments Limited, Prestigious Time Limited and YITAO Investments Limited are Ms. Wong Pui Chu, the late Mr. Kwan Wang Yung (deceased on 1 October 2018) and Mr. Tse Po Tat, respectively.

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

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

— Action Rich Investment Limited

— Aqua Pure Distilled Water Company Limited

31 RELATED PARTIES BALANCES AND TRANSACTIONS (Continued)

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	
	2018	2017
	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$.

Same 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

Key management compensation

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Fees	**756**	741
Salaries, allowances and benefits in kind	**17,944**	15,596
Pension costs	**249**	252
	18,949	16,589

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 2018 HK$'000	2017 HK$'000
Profit before income tax from			
Continuing operations		**9,857**	10,520
Discontinued operation	12	**(4,369)**	(2,179)
Profit before income tax including discontinued operation		**5,488**	8,341
Adjustments for:			
Interest income		**(102)**	(133)
Interest expenses on borrowings		**293**	937
Losses on disposal of property, plant and equipment	32(b)	**1,838**	116
Amortisation of leasehold land	16(a)	**1,594**	1,416
Depreciation of property, plant and equipment	16(b)	**28,683**	29,448
Provision for reinstatement costs		**1,164**	30
Provision/(reversal of provision) for obsolete inventories	17	**46**	(446)
Provision for impairment loss on trade receivables	19	**2**	24
		39,006	39,733
Changes in working capital:			
Increase in inventories		**(3,089)**	(1,532)
Decrease/(increase) in trade receivables		**10,999**	(1,300)
Increase in prepayments, deposits and other receivables		**(9,790)**	(5,080)
Increase in trade payables		**12,072**	4,820
Increase in accruals and other payables and receipts in advance		**25,749**	10,177
Cash generated from operations		**74,947**	46,818

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Disposal of property, plant and equipment

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Property, plant and equipment			
Net book value	16(b)	**2,282**	169
Losses on disposal of property, plant and equipment	7,12	**(1,838)**	(116)
Proceeds from disposal of property, plant and equipment		**444**	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 cash/(debt)	Year ended 31 December 2018 HK$'000	2017 HK$'000
Cash and cash equivalents	**128,391**	113,588
Borrowings – repayable within one year (including overdraft)	**(35,477)**	(20,783)
Borrowings – repayable after one year	**(58,615)**	(31,659)
Net cash	**34,299**	61,146
Cash and liquid investments	**128,391**	113,588
Gross debt – variable interest rates	**(94,092)**	(52,442)
Net cash	**34,299**	61,146

	Other assets	Liabilities from financing activities		
	Cash HK$'000	Borrowings due within 1 year HK$'000	Borrowings due after 1 year HK$'000	Total HK$'000
Net cash/(debt) as at 1 January 2017	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 cash/(debt) as at 31 December 2017	**113,588**	**(20,783)**	**(31,659)**	**61,146**
Cash flows	**18,777**	**(14,694)**	**(26,956)**	**(22,873)**
Foreign exchange adjustments	**(3,974)**	**–**	**–**	**(3,974)**
Net cash/(debt) as at 31 December 2018	**128,391**	**(35,477)**	**(58,615)**	**34,299**

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	
	2018	2017
	HK$'000	HK$'000
Not later than 1 year	**96,505**	106,860
Later than 1 year and no later than 5 years	**63,463**	91,766
	159,968	198,626

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	
	2018	2017
	HK$'000	HK$'000
Contracted but not provided for Property, plant and equipment	**22,706**	33,420

35 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of Financial Position of the Company

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
ASSETS		
Non-current assets		
Investment in a subsidiary	**31,927**	31,927
Amounts due from subsidiaries	**191,152**	193,183
	223,079	225,110
Current assets		
Prepayments, deposits and other receivables	**260**	300
Cash and cash equivalents	**1,259**	497
	1,519	797
Total assets	**224,598**	225,907
EQUITY		
Share capital	**6,559**	6,559
Share premium	**214,999**	214,999
Reserves (Note (a))	**2,033**	1,335
Total equity	**223,591**	222,893
LIABILITIES		
Current liabilities		
Accruals and other payables	**1,007**	3,014
Total equity and liabilities	**224,598**	225,907

The statement of financial position of the Company was approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Tse Po Tat
Director

Wong Pui Chu
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 2016 and 1 January 2017	107,992	5,421	(107,058)	6,355
Total comprehensive loss				
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
At 31 December 2017 and 1 January 2018	107,992	5,421	(112,078)	1,335
Total comprehensive income				
Profit for the year	–	–	5,158	5,158
Transaction with owners				
2017 final and special dividends	–	–	(4,460)	(4,460)
At 31 December 2018	107,992	5,421	(111,380)	2,033

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 2018

	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$'000	Estimated money value of other benefits HK$'000	Employer's contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive directors						
Ms. Wong Pui Chu	–	1,901	252	–	18	2,171
Mr. Tse Po Tat	–	1,901	252	–	18	2,171
Mr. Kwan Wang Yung*	–	1,691	251	390	15	2,347
Dr. Szeto Wing Fu	–	2,160	287	–	18	2,465
	–	7,653	1,042	390	69	9,154
Independent non-executive Directors						
Mr. Kiu Wai Ming	252	–	–	–	–	252
Professor Sin Yat Ming	252	–	–	–	–	252
Mr. Andrew Look	252	–	–	–	–	252
	756	–	–	–	–	756

* Mr. Kwan Wang Yung served as a Director until he deceased on 1 October 2018.

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 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$'000	Estimated money value of other benefits HK$'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)

There was no arrangement during the years ended 31 December 2018 and 2017 under which a Director waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

(b) Directors' termination benefits

None of the Directors received any termination benefits during the years ended 31 December 2018 and 2017.

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

During the years ended 31 December 2018 and 2017, 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 2018 and 2017, there are no loans, quasi-loans and other dealing arrangements in favour of directors, bodies corporate controlled by and entities connected with such Directors.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the 31 December 2018 and 2017 or at any time during the years ended 31 December 2018 and 2017.

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Revenue	**783,383**	729,776	700,744	707,417	702,063
Profit/(loss) before income tax	**9,857**	10,520	8,176	20,262	(26,540)
Income tax credit/(expense)	**2,888**	(149)	4,628	(1,176)	(4,641)
Profit/(loss) for the year from continuing operations	**12,745**	10,371	12,804	19,086	(31,181)
Loss for the year from discontinued operation	**(4,437)**	(2,369)	(4,161)	(9,755)	(7,479)
Profit/(loss) for the year	**8,308**	8,002	8,643	9,331	(38,660)
Profit/(loss) attributable to:					
Owners/equity holders of the Company	**9,374**	8,106	8,961	8,707	(38,345)
Non-controlling interests	**(1,066)**	(104)	(318)	624	(315)
	8,308	8,002	8,643	9,331	(38,660)

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Non-current assets	**384,330**	331,923	301,900	298,921	319,461
Current assets	**252,987**	231,771	251,838	275,300	246,050
Total assets	**637,317**	563,694	553,738	574,221	565,511
Equity and liabilities					
Total equity	**271,694**	267,251	256,982	258,806	253,583
Non-current liabilities	**62,531**	37,094	48,841	42,872	20,714
Current liabilities	**303,092**	259,349	247,915	272,543	291,214
Total liabilities	**365,623**	296,443	296,756	315,415	311,928
Total equity and liabilities	**637,317**	563,694	553,738	574,221	565,511

HUNG FOOK TONG

Hung Fook Tong Group Holdings Limited
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