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

2020 Annual Report 年報

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CORPORATE INFORMATION

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Andrew LOOK *(Chairman)*
Mr. KIU Wai Ming
Prof. SIN Yat Ming

REMUNERATION COMMITTEE

Prof. 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
Prof. SIN Yat Ming

STRATEGY AND DEVELOPMENT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Dr. SZETO Wing Fu
Mr. LAU Siu Ki

COMPANY SECRETARY

Mr. LAU Siu Ki

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and
Registered Public Interest Entity Auditor
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 54
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
Bank of China Tower
1 Garden Road
Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Central
Hong Kong

COMPANY WEBSITE

www.hungfooktong.com

STOCK CODE

1446

HIGHLIGHTS OF THE YEAR 2020

• JAN-FEB •

Opened a new shop in Hin Keng MTR Station

Awarded the "Caring Company" logo for the 14th consecutive year

• MAR-APR •

Opened a new shop in Nam Cheong MTR Station

Launched the new Detox & Heat Relief Soup

Launched the new Detox & Heat Relief Drink and distributed to the community during the pandemic

Donated medical masks to the Hong Kong Society for Rehabilitation, helping some 1,500 families

• MAY-JUNE •

Entered into a 5-Year Strategic Partnership Featuring Barter & Bundle Flexibility with HKBN Group

Expanded the Joyous Series by rolling out the new Fish Essence

Introduced the authentic Hong Kong Milk Tea with Honolulu Coffee Shop

Introduced HUNG FOOK TONG x KAKAO FRIENDS special edition drinks

• JUL-AUG •

Announced a strategic partnership with Eu Yan Sang and HKBN Group for a Win-Win-Win Partnership

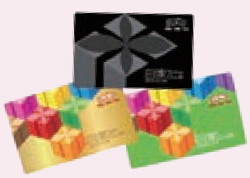
Received the "Hong Kong Awards for Environmental Excellence 2019 : Shops and Retailers (Certificate of Merit)"

Launched a new category of Home Made Dishes to facilitate takeaway cooking

• SEP-OCT •

Opened a new shop in Fanling MTR Station

自家CLUB
JIKA CLUB



The number of JIKA CLUB members exceeded 1,000,000

• NOV •

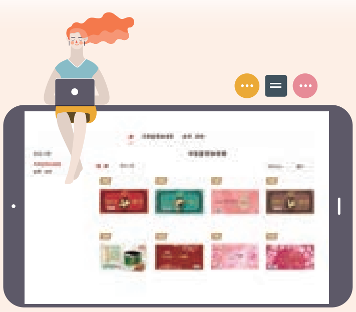
Launched the "HUNG FOOK TONG x Minions" promotion campaign

Received "2019/2020 Award of Merit" for sponsoring the Community Chest Skip Lunch Day for 11 consecutive years

• DEC •

Received the "Q-Mark Elite Brand Awards 2020"

Q嘜人氣品牌
2020

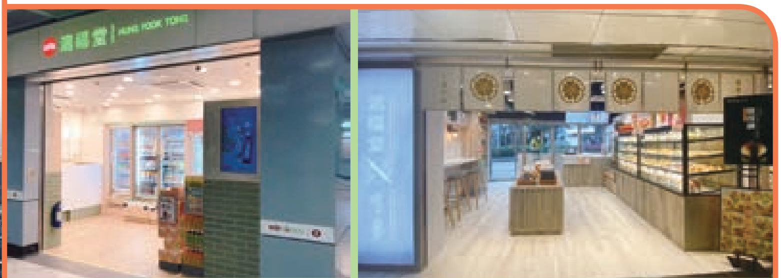


Joined the online Hong Kong Brands and Products Expo amidst COVID-19

Received the certificate of Outlet Anti-Epidemic Measures Recognition

RETAIL BUSINESS

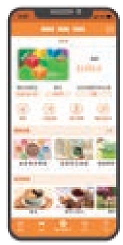
Remained the largest revenue contributor, accounted for **78.1%** of total revenue



119 shops in Hong Kong, including **2** "Handmade Bakery" stores

Over **1,024,000** members

Continuous enhancement of the Hung Fook Tong mobile application



Bolstered its **online exposure** and **delivery services** amidst the pandemic

18 "HUNG+" smart vendors across Hong Kong

WHOLESALE BUSINESS

- The wholesale segment achieved a turnaround, moving back to a profit-making position of HK$ **8.1** million
- Significant increase in online sales in Hong Kong as the Group tapped more online sales channels during the pandemic

*

Making progresses in Mainland China

- **Re-engineering** of the wholesale business processes in Mainland China
- A number of bottled drinks have become available once again in Guangzhou, Dongguan, Shenzhen, etc. at over **6,400** convenience stores

* Hung Fook Tong American Ginseng Drink is the health food certified by China Food and Drug Administration

Product Highlights

- Introduced more **imported food** from **Taiwan** and **South Korea**
- Launched the authentic **Hong Kong Milk Tea with Honolulu Coffee Shop**

CHAIRMAN'S STATEMENT

Mr. Tse Po Tat
Chairman and Executive Director

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 2020.

The past 12 months have been a highly challenging period for all businesses in the wake of the pandemic, and not just those in Hong Kong, but also for many businesses around the world. Despite the stiff headwinds created by COVID-19, I am pleased by the Group's admirable performance, the consequence of leveraging our adaptability and readiness. These traditional strengths have enabled us to move rapidly and effectively to retain our customers and members, as well as control costs across different facets of operation, which in turn has helped to offset the drop in revenue caused by COVID-19. Consequently, we have managed to achieve a significant five-fold increase in net profit when compared with the last financial year.

In Hong Kong, despite COVID-19, we have continued to be the largest herbal retailer based on a retail network that consists of 119 shops, which includes two Handmade Bakery (嚐麥手作) shops. Compared with other retailers, we have performed in a relatively stable manner, owing to the competitive advantages of our pre-packaged products, which meet strict hygiene standards and are conducive to takeaway, hence are ideal for the current conditions, with more people tending to eat at home.

Apart from our extensive retail network, the Group's Smart Vendors "HUNG+ (鴻家)", well-developed mobile application for JIKA CLUB members, and e-commerce exposure have also proved invaluable during the review year. With an increasing number of customers moving online to conduct purchases, and subsequently expedited by COVID-19, we have experienced a significant rise in sales from online channels for our coupons, long shelf-life drinks and other wellness products.

With regard to our wholesale business, the Hong Kong operation was impacted modestly by school closures and dine-in restrictions imposed during the review year, as schools and restaurants have been our wholesale partners. As for Mainland China, we faced much greater challenges as our business ties with the majority of key accounts were disrupted due to social activities in Hong Kong during second half of 2019, and further aggravated by the COVID-19 pandemic in the first half of 2020. Nevertheless, through tremendous effort, the Group was able to gradually mend business ties with certain key accounts, particularly major convenience chain store operators in southern China, which in turn saw the return of some of the Group's products.

On the production front, the operation of our production facilities in Kaiping City, Guangdong, has continued to progress. As a consequence of greater efficiency, associated costs have come down.

Given the Group's encouraging performance despite the aforementioned challenges, the Board has resolved to recommend a final dividend of HK1.96 cents per ordinary share (2019: a final dividend of HK0.46 cent per ordinary share and a special dividend of HK0.38 cent per ordinary share respectively). Including the special dividend of HK0.90 cent per ordinary share paid in September 2020, the total dividends for 2020 amounted to HK2.86 cents per ordinary share (2019: HK0.84 cent per ordinary share).

35 YEARS: ONE MILESTONE WILL LEAD TO THE NEXT

Though the shadow of the pandemic has yet to disappear, economic expansion in Mainland China and the world as a whole are expected in 2021, assuming that the initial rollout of COVID-19 vaccines becomes widespread over the course of the year[1]. With headwinds tapering off, and the Group's 35th anniversary in sight, we hold guarded optimism towards our prospects in the relevant retail and wholesale markets of Hong Kong and Mainland China.

In view of the public's heightened concern and awareness of health and hygiene, we have maintained alert to the latest public health developments and have ensured the cleanliness of our premises. We will also adopt a proactive approach towards satisfying customers' desire for our wellness food and beverage products; taking all steps in ensuring they enjoy our offerings with total peace of mind. Such efforts would also facilitate our ability to expand the Group's retail coverage of Hong Kong. In the coming financial year, we have plans to open more new shops, including the introduction of new concept stores under the "HFT Life" brand, which will enable us to both broaden our customer base and boost our image among the younger generations. While growing our footprint, we will continue to negotiate with landlords so that both new and existing shop locations are secured at reasonable rental rates.

Besides strengthening our physical presence, now with the prevailing "stay at home" and "work from home" economy, we will also enhance our online exposure by launching the "JIKA ON (自家ON)" online platform in 2021. JIKA ON will encourage engagement with our staff, corporations and charitable organisations – constituting the first phase of development. In addition to this worthwhile endeavour, we will strengthen our presence online and on different e-commerce platforms to facilitate the rollout of new products. We will also increasingly employ social and other online platforms to conduct promotions that target specific audiences, as this has proved to be more cost-effective and efficient.

1 Source: The World Bank

In Mainland China, our aspiration will be to make greater inroads with key accounts, while at the same time attract more online retailers so that we are able to aggressively promote our products in the digital realm. Outside the country, given that COVID-19 will continue to impact many parts of the world, we anticipate a slow and measured recovery of our overseas business when lockdowns are gradually lifted.

Despite the various uncertainties, we remain optimistic about the opportunities on the horizon and look forward to a brighter year ahead. We will fully leverage our experience in navigating through numerous economic cycles over the past 35 years to chart a path forward. Serving as compass will be our tried and tested "3H" business model, comprising the three pillars of "Health, Herbal and Home", which is in line with the present business climate and sympathetic to the public need for takeaway, pre-packaged food, and delivery services. Given that "3H" has been part of the Group's DNA well before the outbreak of the pandemic, we trust that we will be fully capable of observing this model to keep one step ahead of our peers in responding to challenges that emerge and to continue tapping the "untact economy" with our competitive edges.

APPRECIATION

I would like to take this opportunity to extend my heartfelt gratitude to our colleagues for their alertness and commitment to their positions despite the pandemic, enabling the Group to overcome the various challenges and perform encouragingly. I wish to also thank all of our customers, business partners and shareholders, many of whom have long supported the Group through thick and thin; enabling it to surmount obstacles past and present. Towards the future, we will look forward to further strengthening ties with all stakeholders so that we can achieve mutual success.

Tse Po Tat
Chairman and Executive Director
Hong Kong, 29 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2020 was a period of significant challenges for both the Hong Kong and Mainland China retail and wholesale markets, owing to the COVID-19 pandemic that had sweeping and negative effects on the businesses and lives of people around the world. The Group's retail and wholesale performance was inevitably affected by the difficult conditions. Moreover, with regard to the wholesale operation, revenue declined primarily due to the severing of business ties with the majority of key accounts in Mainland China, the consequence of social activities in Hong Kong since the second half of 2019. The extraordinary events of the year saw the Group's revenue contract by 9.5% to HK$702.5 million (2019: HK$775.8 million).

As for the Hong Kong retail operation, it recorded a single-digit decline in sales, which was still better than the average decline experienced by many other retailers in the city as suggested by Census and Statistics Department figures, which has provisionally estimated a decline in total retail sales value ("RSV") of 24.3% in 2020 when compared with 2019. The outperformance can be attributed to the Group's efforts in introducing more high-quality and healthy products that were able to allay public concerns over health and wellness; and the prompt adjustment in sales channels to online platforms and delivery services, leveraging its strong brand equity.

Gross profit decreased by 8.4% to HK$447.8 million (2019: HK$488.7 million), which was due mainly to the top-line decline. Despite of this, as well as the appreciation of the Renminbi in the second half of 2020, gross profit margin improved modestly to 63.7% (2019: 63.0%), which is a reflection of the improved sales mix and continuous enhancement in supply chain management.

Owing to cost savings derived from the re-engineering of the Group's business processes since late 2019, particularly in Mainland China, which resulted in a decrease in selling and administrative expenses, as well as the receipt of government grants comprising subsidies to retail sector and food licence holders along with funds from the Employment Support Scheme ("ESS"), profit attributable to owners of the Company soared by 524.6% to HK$62.5 million (2019: HK$10.0 million). Even if the one-off government grants and subsidies were excluded, the Group still recorded a surge in profit attributable to owners of the Company of 69.6% to HK$17.0 million.

In view of the sound fundamentals of the Group, the Board has resolved to recommend a final dividend of HK1.96 cents per ordinary share (2019: a final dividend of HK0.46 cent per ordinary share and a special dividend of HK0.38 cent per ordinary share respectively). Including the special dividend of HK0.90 cent per ordinary share paid in September 2020, the total dividends for 2020 amounted to HK2.86 cents per ordinary share (2019: HK0.84 cent per ordinary share).

The Group remains in a healthy financial position, and has stable operating cash flows. It also holds sufficient cash and cash equivalents as well as unutilised banking facilities, totalling approximately HK$134.9 million and HK$92.2 million, respectively, as at 31 December 2020 (31 December 2019: HK$95.4 million and HK$42.9 million, respectively).

BUSINESS SEGMENT ANALYSIS

Hong Kong Retail

Continuing to be the largest revenue contributor, the Hong Kong retail operation generated HK$548.6 million (2019: HK$581.1 million) in revenue, down 5.6%, and accounted for 78.1% of total revenue for the financial year. The decline was mainly attributed to social distancing and health measures imposed by the government in the wake of COVID-19, which led to school closures, adoption of work-from-home arrangements by government departments and companies, and less contact among the general public. Consequently, such measures resulted in a decline in footfall, which in turn led to same-store sales decline of a single percentage point. At the same time, major exhibitions and expos (e.g. Hong Kong Brands and Products Expo ("HKBPE"), Food Expo) were cancelled or postponed.

More favourably, there was an increase in average transaction value per JIKA CLUB (自家CLUB) member, which helped to partly offset the decrease in customer traffic. Segment profit climbed 35.4% to HK$109.8 million (2019: HK$81.1 million), owing to the effective cost control of raw materials; preferential rental concessions secured with landlords; streamlined workforce; receipt of government grants and subsidies for the retail sector and food license holders totalling HK$10.3 million; and subsidies from ESS.

Amid a weak retail environment, the Group has acted swiftly and resolutely in reinforcing its retail presence in Hong Kong. While no shops were closed due to the impact of the pandemic, as at 31 December 2020, the Group had 119 self-operated shops in the city, which included two Handmade Bakery (嚐麥手作) shops. During the year, three shops were opened along the Tuen Ma Line Phase 1, West Rail Line and East Rail Line, specifically at Hin Keng Station, Nam Cheong Station and Fanling Station. This has enabled the Group to maintain its standing as the largest herbal retailer in Hong Kong based on retail network size.

In the wake of "stay-at-home" and "work-from-home" practices since the outbreak of COVID-19, online retailing and delivery services have increased in popularity. Fittingly, the Group has been serving pre-packaged wholesome food and beverages for decades, hence it was able to outpace many of its retail peers in adapting to the new normal. Leveraging its early-mover advantage and capitalising on recent developments, the Group has allocated greater effort and resources to takeaway food services. This has included co-operating with the foodpanda and Deliveroo online delivery platforms to offer customers a convenient means of enjoying the Group's products, whether they are at home or at the office. The Group has also launched a new category of Home Made Dishes (自家小菜) to facilitate takeaway cooking. Through the Group's efforts, bulk purchases and food deliveries requested by corporate clients, charities and government have surged. To sustain growth momentum, the Group has joined online exhibitions, such as the Online HKBPE, so as to further raise awareness of its products and boost sales.

With reference to JIKA CLUB, the Group has sought to boost member engagement through exclusive offers, bulk purchases and top-up promotions. Consequently, despite a decline in store visits by members due to the pandemic, there was an actual rise in average spending per member. In addition, such efforts have helped to increase memberships, which, as at 31 December 2020, had reached 1,020,000 – up by approximately 101,000 members from the last financial year. Yet another means to enhance member convenience is the Hung Fook Tong mobile application ("APP") through which special discount offers, incentive programmes (e.g. e-stamps), and joint promotions are extended. Indicative of its ability to address customers' needs, there was an increase in number of downloads and transactions via the APP during the review year.

As the APP has become more popular, the Group has witnessed an increase in uptake of e-coupons by JIKA CLUB members. Consequently, less paper coupons were printed as more redemptions or transactions were conducted electronically.

In view of growing public concerns over health and hygiene due to the pandemic, the Group has recognised the need to remind customers of the importance of a healthy diet to strengthen their health, especially their immune system. This can be achieved, in part, through the Group's nutritious herbal drinks, soups and food products. The launch of bulk purchase offers have complemented such efforts at raising awareness, and have received good sales response. To further promote public wellbeing, the Group has launched the new Detox & Heat Relief Soup (清肺解毒湯), and continued to expand the Joyous Series (自家喜慶系列) by rolling out the new Fish Essence (滴虱目魚精) so that customers are offered even more options for protecting their health. The latter is particularly appropriate for those seeking to strengthen their health, such as the elderly, individuals recovering from illness or surgery and postnatal moms. The Joyous Series has achieved satisfactory growth with the addition of the new product.

As at 31 December 2020, 18 HUNG+ Smart Vendor machines were in operation in commercial buildings and residential estates.

Wholesale

The wholesale segment experienced a drop in revenue of 21.0% to HK$153.9 million (2019: HK$194.7 million), dragged down by sales declines in both the Hong Kong and Mainland China markets, especially the latter. However, it should be noted that the segment achieved a turnaround, moving back to a profit-making position of HK$8.1 million (2019: loss of HK$4.9 million). This can be attributed to an increase in segment results from the Hong Kong wholesale operation, which is the result of a higher gross profit margin (due mainly to higher efficiency achieved at the Kaiping factory) and lower selling expenses. Loss from the Mainland China wholesale business has narrowed as a consequence of the re-engineering of the Group's business processes.

Hong Kong

In Hong Kong, revenue of HK$132.1 million (2019: HK$135.0 million) was recorded, or a decline of 2.1% year-on-year, and was due to lower revenue from a number of convenience stores and grocery stores, as people tended to stay at home. COVID-19 has also caused a drop in revenue from restaurants and schools, though the significant increase in online sales has helped to partly offset such losses. The Group has tapped more online sales channels, including hksuning.com (蘇寧), Neigbuy.com (鄰住買), HOME+ and foodpanda mall, as well as smaller scale e-shops and online wholesale platforms. Furthermore, product expansion has continued with the launch of the new Detox & Heat Relief Drink (清肺解毒飲) and Isatis Root Drink (板藍根飲品) which deliver health benefits that are responsive to the pandemic. In addition, the Group has introduced more imported food, including Almond Cookies with Milkfish Floss (虱目魚鬆杏仁餅) and Concentrated Chicken Essence (紅羽土雞滴雞精) from Taiwan; Korean Chicken Ginseng Soup (韓國人蔘雞湯) and Army Stew Hotpot Soup (韓國部隊鍋), all of which can be purchased via chain stores or online platforms. Launch of more cross brand promotions and products has been pursued as well, resulting in the introduction of the authentic Hong Kong Milk Tea (鴻福堂 x 檀島港式奶茶) with Honolulu Coffee Shop in July, among other fruitful outcomes.

Mainland China

With regard to the Group's Mainland China wholesale business, it was hit hard by the severing of business ties with the majority of key accounts owing to social activities in Hong Kong in the second half of 2019. Additionally, COVID-19 struck yet another blow to sales derived from major sales channels during the first half year, as the Group's plan to relaunch its products was delayed. Though health measures were gradually lifted in the second half year, key accounts have remained prudent about shelving the Group's products, compounded by fierce industry competition. Such developments have affected the Group's plans to re-launch its products among key accounts nationwide and on online platforms.

Revenue from the Mainland China wholesale business contracted by 63.5% to HK$21.8 million (2019: HK$59.7 million), principally due to the aforementioned severing of ties. Such relations have gradually been restored with certain key accounts, mainly in southern China. However, the resumption of business has been delayed and the scale of business made smaller due to lockdown measures relating to COVID-19. As such restrictions also occurred during the summer months, which is the peak season for product launches, the impact was felt accordingly. Still, a number of fresh or long-shelf life bottled drinks have become available once again in Guangzhou, Dongguan, Shenzhen, etc. via several key accounts, amounting to over 6,400 convenience stores.

To optimize its business model, the Group has re-engineered its business processes in Mainland China by shifting logistics and sales promotion duties to its distributors. This has enabled the Group to operate only one office, located in Guangzhou, which in turn has resulted in the successful saving of both operational and management costs, and therefore the segment loss has narrowed.

Other Markets

In respect of other markets, they too were expectedly impacted by the pandemic, specifically lockdown measures in countries such as the U.S., Australia and Malaysia, resulting in a notable decline in sales. As for Europe, several countries delayed co-operation as the result of COVID-19. Still, the Group has continued to explore new business opportunities in such markets as South Korea and Singapore where trial one-off promotions were initiated.

Safety and Production Capability

Food safety and hygiene have always been among the Group's highest priorities. In the face of the pandemic, the Group has continued to uphold the highest standards of hygiene at all of its shops, factories and workplaces, so as to protect customers and staff. Such commitment has also enabled the Group to ensure smooth operations even under the shadow of the pandemic. At the Kaiping factory, except for a slight delay experienced after the Lunar New Year when COVID-19 erupted, operations generally resumed by early March, and subsequently continued seamlessly for the rest of the year. With regard to the Tai Po factory, there was no material impact on its operations due to COVID-19. Enhanced factory cleaning and strict observance of ISO22000 food safety guidelines such as wearing masks, washing hands and sanitising frequently all contributed to its uninterrupted operation. The Group was therefore able to allocate more resources to raising production capacity so as to meet the increased demand for prepacked food.

PROSPECTS

In entering 2021, the world has yet to gain the upper hand over the pandemic, and the global economy looks set to face still more challenges. Hence, those in the retail and wholesale segments will likely continue to endure stiff headwinds. Such a negative outlook is shared by the Hong Kong Retail Management Association which expects retail sales performance in the first half of 2021 to mimic the first half of 2020. Specifically, the Association has projected a drop in RSV ranging from 20% to 30% year-on-year, and as much as 35% if the same period of 2018 was used as the baseline.

Fully mindful of the dire business climate, the Group will continue its focus on agility, having already adhered to a quick-response approach to take advantage of market shifts once signs appear. This approach is also applicable to the issue of health and safety. The management is constantly and closely monitoring pandemic-related developments and has been fully prepared to implement relevant health measures at its shops, factories and offices.

Despite the uncertain outlook, the management is convinced that challenges coexist with opportunities. With growing concerns for a healthy diet among the general public, and further heightened in the wake of COVID-19, such desires will benefit the Group as it has long been a trusted purveyor of nutritious herbal products, including convenient and hygienic pre-packaged food. Moreover, with work from home and stay at home now a common practice, the Group will bolster its online shopping and delivery services still further so as to serve customers wherever they may be. Also with customers in mind, the Group will explore more collaborations with relevant brands in a similar vein to partnerships with HKBN Group and Eu Yan Sang, and which can bring success to all parties involved.

Hong Kong Retail

In Hong Kong specifically, the Group will strive to maintain its market leadership, which will include reinforcing its physical presence. Correspondingly, it will strengthen ties with landlords and seek their support not only in terms of rental concessions, but also lease renewals, renovations and new store openings. In view of a softening rental market, the Group has plans for opening around eight to ten new shops in 2021, including those under the Handmade Bakery brand.

Certainly an exciting development scheduled for 2021 is the debut of "HFT Life", which is a brand new concept store by Hung Fook Tong. Adapting a minimalistic interior design with gentle touches of wooden and white hues, HFT Life provides a relaxing and rejuvenating atmosphere for customers. What is more, in bringing together Western and Chinese food cultures, HFT Life offers visitors an array of products, including baked goods from Handmade Bakery and the Group's signature additive-free soups. Through HFT Life, the Group aims to deliver a comfortable environment that is conducive to the recharging of body and mind. Already, two HFT Life concept shops have opened on Caine Road and in Happy Valley respectively, since February 2021, with several other new shop locations under discussion with relevant landlords. Also envisaged is the opening of one shop at the Tuen Ma Line, which is expected to be fully operational in 2021.

On the product front, the Group will be extending the chicken essence line by launching Cordyceps Organic Chicken Essence (野生冬蟲夏草有機滴雞精) in January 2021 as a premium alternative for customers. The Group will also launch new essence products in 2021 that will expand the Joyous Series. In addition, a new frozen food series featuring shao mai, curry fish balls and other delicious snacks will be introduced that perfectly align with the greater time that people are now spending at home due to movement restrictions.

While promotion efforts have been part and parcel of the Group's business strategy, this will take on added meaning in 2021 as the Group celebrates its 35th anniversary. Greater effort in raising brand awareness will be the main objective during this important occasion, complemented by corresponding offers and promotions.

Still other important pursuits will include strengthening the Group's presence online and in the digital realm. Towards such objectives, it will continue to promote e-coupons to members, corporate clients and online resellers. At the same time, the Group will enhance the Hung Fook Tong mobile application and encourage its download and usage by launching e-discount coupons in the second quarter of 2021. In addition, the new "JIKA ON" (自家ON) online platform will be introduced in the second quarter of 2021, the first phase of rollout will be aimed at promoting engagement or co-operation among staff, companies and charities. Efforts will also be placed on increasing brand exposure, hence the Group will participate in more online expos and events, such as Online BB expo, Online HKBPE, etc. as well as offline events that were previously cancelled or postponed due to the pandemic.

Wholesale

With respect to the wholesale business, and specifically Hong Kong, the Group will be closely monitoring the development of COVID-19 as it has a direct bearing on the recovery of key accounts. Regardless of whether the pandemic takes a turn for better or worse, the Group is determined to strengthen its online sales and presence. The Group will also continue to bolster its product portfolio, which includes engaging in more cross brand products and promotions that result in special editions drinks. More seasonal and specialty products from different markets, such as soups from South Korea, will be introduced as well.

In Mainland China, the economy has rebounded since the second half of 2020, though the situation remains uncertain as there are still COVID-19 cases as of early 2021. Different brands are therefore expected to aggressively promote and sell their products online to recoup business. The Group will consequently look into the viability of promoting online as well as bringing its products back to online platforms, particularly those for consumers in Guangdong. It will also work closely with key accounts to strengthen business ties and bring more products back on the shelves.

As for other markets, the Group will continue its efforts to introduce fresh drink products to Singapore and South Korea. In Taiwan and Malaysia, the Group will participate in product collaborations so as to strengthen its presence in these markets. This follows the successful model employed last year between Hung Fook Tong and KAKAO FRIENDS in tapping supermarkets in Taiwan.

CONCLUSION

With the 35th anniversary of Hung Fook Tong set to be the highlight of 2021, the Group will certainly embrace and celebrate this important triumph. At the same time, it will make every effort in ensuring that even more significant milestones are down the road.

With Hung Fook Tong's strong brand recognition built over three decades; wide spectrum of wholesome products and advanced technologies; leadership in the wellness food and beverage sectors; and unwavering support from stakeholders, the Group is well-prepared and capable of overcoming whatever conditions that may arise in the coming year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group's revenue amounted to HK$702.5 million, representing a decrease of 9.5% from HK$775.8 million in 2019. Both Hong Kong retail and wholesales business experienced a decline in revenue to HK$548.6 million and HK$153.9 million respectively, representing a decrease of 5.6% from HK$581.1 million and 21.0% from HK$194.7 million in 2019, as a result of the COVID-19 outbreak and global economic slowdown.

Cost of Sales

For the year ended 31 December 2020, the Group's cost of sales amounted to HK$254.7 million, representing a decrease of 11.3% from HK$287.1 million in 2019. As a percentage of revenue, cost of sales represented 36.3% and 37.0% in 2020 and 2019 respectively.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2020, the Group's gross profit amounted to HK$447.8 million, representing a decrease of 8.4% from HK$488.7 million in 2019. Despite a decrease in gross profit, the Group's gross profit margin increased by 0.7 percentage point to 63.7% as compared with 63.0% in 2019 due to effective cost control measures with continuous enhancement in supply chain management and improvement in the sales mix.

Staff Costs

For the year ended 31 December 2020, the Group's staff costs amounted to HK$175.5 million, representing a decrease of 26.5% from HK$238.9 million in 2019. The decrease was mainly due to a decrease in the number of headcounts and the receipt of government grant from the Employment Support Scheme. The staff costs-to-revenue ratio is 25.0% as compared with 30.8% in 2019.

Rental Expenses

For the year ended 31 December 2020, rental expenses in relation to its retail shops in Hong Kong (being the aggregate of lease rental in respect of retail outlets, depreciation of right-of-use assets for shop properties and the interest expense arisen from lease liabilities) amounted to HK$97.9 million, representing a decrease of 6.9% from HK$105.2 million in 2019. The decrease was mainly due to concessions from certain landlords resulting in more affordable rental rates. Rental expenses-to-revenue ratio for the Hong Kong retail shops is 17.8% as compared to 18.1% in 2019.

Advertising and Promotion Expenses

For the year ended 31 December 2020, the Group's advertising and promotion expenses amounted to HK$28.7 million, representing a decrease of 14.5% from HK$33.6 million in 2019. This accounted for 4.1% and 4.3% of revenue in 2020 and 2019 respectively.

Depreciation

For the year ended 31 December 2020, the depreciation of property, plant and equipment of the Group amounted to HK$34.7 million, representing an increase of 17.5% from HK$29.6 million in 2019. This accounted for 4.9% and 3.8% respectively in percentage to revenue in 2020 and 2019.

Net Profit

Profit attributable to owners of the Company for the year ended 31 December 2020 was HK$62.5 million, representing an increase of 524.6% from HK$10.0 million in 2019. The net profit margin (calculated as profit for the period as a ratio of revenue) for the year ended 31 December 2020 was 8.9%, as compared to 1.3% in 2019.

Earnings per share for profit attributable to owners of the Company for the year ended 31 December 2020 amounted to HK9.53 cents, as compared to HK1.53 cents in 2019.

Capital Expenditure

During the year ended 31 December 2020, capital expenditure amounted to HK$28.5 million (2019: HK$53.0 million). This amount was mainly used for the opening of new shops, revamping of existing retail shops and acquisition of production facilities in Mainland China and Tai Po plants.

Liquidity and Financial Resources Review

As at 31 December 2020, the Group had bank deposits and cash balance amounted to HK$134.9 million (31 December 2019: HK$95.4 million).

As at 31 December 2020, the gearing ratio of the Group was 0.12 (31 December 2019: 0.34), which was calculated based on total bank borrowings divided by equity attributable to owners of the Company.

As at 31 December 2020, the Group had total banking facilities of HK$135.6 million (31 December 2019: HK$137.8 million) of which HK$43.4 million (31 December 2019: HK$94.9 million) had been utilised.

As at 31 December 2020, the Group's current liabilities exceeded its current assets by HK$136.8 million (31 December 2019: HK$142.9 million). Included in current liabilities are receipts in advance relating to sales of prepaid coupons to customers in Hong Kong of HK$157.3 million (31 December 2019: HK$156.3 million) which will reduce gradually over the time of each redemption by customers and are not expected to be settled by cash under normal business circumstances. Excluding the aforementioned receipts in advance, the Group would have net current assets of HK$20.5 million (31 December 2019: HK$13.3 million) and current ratio of 1.09 (31 December 2019: 1.06).

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

Foreign Currency Risk

Our Group operates mainly in Hong Kong and Mainland China and conducts our business primarily in Hong Kong dollars and 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

Except for the below investment, there were no material acquisitions, disposals and significant investments during the financial year ended 31 December 2020.

As at 31 December 2020, the Group has entered into a joint venture and shareholders agreement with other investors for the investment in a Hong Kong incorporated company which engaged in the provision of e-commerce business in Hong Kong. The Group shall subscribe for 10,000,000 ordinary shares in the investee at a cash consideration of HK$10,000,000 with initial subscription being 5,000,000 shares at HK$5,000,000. However, the Group is entitled to elect to subscribe less than 10,000,000 shares and in which case, the Group's shareholding in the investee will be diluted accordingly.

Contingent Liabilities

Taclon Industries Limited, a wholly-owned subsidiary of the Company, 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 2020, the Group employed approximately 891 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 2020, various training activities, such as orientation on retail shop and back office operations, customer services and sales skills, product knowledge 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 production talents, enhancing the leadership skills of the participants including their professional and managerial techniques as well as their knowledge in machinery monitoring and production processes.

CORPORATE SOCIAL RESPONSIBILITY

During the year ended 31 December 2020, the Group continued to direct energies to endeavours that align with its advocacy of corporate social responsibility ("CSR"). This has included advancing environmental efforts and persisting with social causes despite the challenges and constraints posed by the COVID-19 pandemic. Further information on the Group's commitment to CSR can be found from its 2020 Environmental, Social and Governance ("ESG") Report to be published.

ENVIRONMENTAL

On the environmental front, the Group has continued to play an active role in creating a green environment for all Hong Kong citizens. This has included the adoption of renewable energy technologies, as highlighted by the installation of solar panels on the roof of the Tai Po plant in September 2020. In total, about 590 panels were installed, which is equivalent to approximately 2,300 m^2 in surface area. As a consequence, the Group has benefited from the generation of green electrical energy, totalling approximately 72MW, from September to December 2020.

Yet another important and ongoing concern of the Group is food waste. As part of its waste reduction efforts, the Group has continued to deliver part of the food waste produced at the Hong Kong Tai Po factory to the Organic Resources Recovery Centre Phase 1 at Siu Ho Wan for processing. Also a continuing practice has been the delivery of some food waste, primarily the residue from herbal tea, to The Chinese University of Hong Kong for the production of organic compost. Through the aforementioned methods, the Group has been able to recycle about 1,300 tonnes of food waste in 2020, or the reduction of over 270 tonnes of carbon dioxide equivalent ("CO_2-e") in greenhouse gas emissions. Furthermore, the Group has installed food waste processing equipment in its Tai Po plant. These measures have led to no food waste disposed in landfills as at the end of 2020.

Plastic waste is certainly a serious global problem. To do its part in reducing such waste, the Group has begun using new bottle caps that use less plastic, since November 2020. These caps can be found on the bottles of a number of healthy drink products produced by the Group in Hong Kong. The Group will continue to explore the feasibility of reducing plastic use through the re-design of different packaging. In the meantime, the Group also supports plastic bottles recycling. Towards this end, it has partnered with the Jane Goodall Institute (Hong Kong) and V Cycle since late 2019, in a trial plastic bottles recycling programme. The effort involves the collection of plastic beverage bottles at four Hung Fook Tong shops where recycling bins were made available during 2020. More than 2,700 PET and PP bottles were collected and recycled in 2020 via the trial program.

The Group has also continued to sponsor the "Recycle Actions of Returning Plastic Bottles" (「交」樽減碳回收行動) initiative managed by RVM Technology Limited, by offering discount coupons as incentives for using recycling machines found at over 70 locations across Hong Kong. Over 830,000 containers, comprising plastic bottles and aluminium cans, were subsequently collected and recycled in 2020 through this meaningful initiative.

Besides the Group's direct involvement in environmental efforts, it has also encouraged customers to adopt greener shopping behaviour. Towards this goal, the Group has promoted the use of the Hung Fook Tong mobile application from which incentives and special offers can be found. In addition, digital membership cards and electronic coupons have been employed to facilitate paperless retailing. Consequently, while memberships have risen compared with 2019, both the number of physical membership cards and paper coupons issued have actually declined, thus highlighting members' migration to digital channels.

SOCIAL

As at 31 December 2020, the Group had a workforce of about 891, comprising approximately 695 employees in Hong Kong and about 196 employees in Mainland China. In the wake of COVID-19, the Group has taken a number of measures to protect the health and wellbeing of employees, including the implementation of a work-from-home scheme, office sanitisation, and the provision of medical masks and healthy herbal drinks for staff. At the factory level, the Group has intensified cleaning efforts and strictly observed ISO22000 food safety guidelines, such as wearing masks, washing hands and sanitising frequently, as well as adding air purifiers where feasible. As for retail shops, measures implemented to ensure staff and customer safety included employing a professional cleaning service to sanitise shops, providing medical masks and face shields for employees, and issuing more stringent guidelines on personal hygiene and shop cleaning.

Even though large-scale training and assessments were suspended due to the virus, the Group was able to conduct small-group in-store training and digital communications; amounting to 236 training sessions and attracting an aggregate of about 598 attendees.

The Group has maintained support for community initiatives despite social distancing measures implemented in the wake of COVID-19. The Group donated medical masks, soup and herbal drinks to The Hong Kong Society for Rehabilitation ("HKSR") in March 2020, which subsequently helped some 1,500 families. Moreover, in a volunteer event with HKSR, Hung Fook Tong volunteer team visited people with disabilities or chronic illnesses to provide support. Separately, the Group distributed up to 1 million bottles of Detox and Heat Relief Drink and herbal drinks to the public through the JIKA CLUB member redemption programme, street booths and partnerships with various NGOs. From the aforementioned efforts, the Group provided in-kind products and coupon sponsorships valued at more than HK$2.8 million in 2020, and assisted more than 100 NGOs, schools and associations. The Group also provided cash sponsorships amounting to about HK$710,000 in 2020.

AWARDS AND RECOGNITION

The Group has steadfastly supported and directly engaged in efforts for the betterment of society, industry and all of its staff. In fulfilling its commitment to corporate social responsibility, the Group has consequently been the recipient of a number of awards and accolades over the past year, as listed below.

Award	Issuer of Award
IN RECOGNITION OF BRAND MANAGEMENT AND CUSTOMER SERVICE	
1. The Hong Kong Q-Mark Service Scheme & Q-Mark Elite Brand Awards 2020	The Federation of Hong Kong Industries
2. 2020 Hong Kong Top Brand	Hong Kong Brand Development Council & The Chinese Manufacturers' Association of Hong Kong
3. GS1 Consumer Caring 5 years+	GS1 Hong Kong
4. Trusted Brands 2020 – Gold Award (Chinese Soup/ Herbal Tea)	Reader's Digest
5. Health Partnership Award 2020 – Outstanding Chinese Herbal Products Corporation	ET Net Limited
6. 2020 Quality E-Shop	Hong Kong Retail Management Association
7. PARKnSHOP Super Brands Award 2019	PARKnSHOP
8. 2019 Outstanding Sales Performance Awards within a category – Beverages	7-Eleven
9. Outlet Anti-Epidemic Measures Recognition	Hong Kong Retail Management Association
IN RECOGNITION OF ENVIRONMENTAL EFFORTS	
10. Hong Kong Awards for Environmental Excellence 2019: Shops and Retailers – Certificate of Merit	Environmental Campaign Committee
11. Hong Kong Green Organisation	Environmental Campaign Committee
12. Green Office 3+ Label and Eco-Healthy Workplace Label 2020	World Green Organisation
13. CarbonCare® ESG Label (Level 3)	CarbonCare InnoLab
14. InnoESG Prize 2020	SocietyNext Foundation
IN RECOGNITION OF COMMUNITY INVESTMENT	
15. 10 Years plus Caring Company Logo 2006-2020	The Hong Kong Council of Social Service
16. Social Capital Builder Logo Award 2020-2022	Labour and Welfare Bureau – Community Investment and Inclusion Fund
17. 2018/19 Y-Care CSR Scheme (Silver Partner)	Chinese YMCA of Hong Kong
18. 2019/2020 Award of Merit	The Community Chest of Hong Kong
IN RECOGNITION OF TALENT DEVELOPMENT	
19. Happiness-at-Work 5 years+	The Hong Kong Productivity Council
20. Good Employer Charter 2020 – Family-friendly Good Employer Logo	Labour Department
21. Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme – Inclusive Organisation Logo	Labour and Welfare Bureau
22. ERB Manpower Developer Award Scheme: Manpower Developer (2011-2020)	Employees Retaining Board

EXECUTIVE DIRECTORS

Mr. TSE Po Tat, aged 67, 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 34 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 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 59, is the chief executive officer and an executive Director of our Company, 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 responsible for the day-to-day management of the Group's business, recommending strategies to the Board, and setting and implementing corporate and operational decisions. Prior to joining our Group in October 1999, Dr. Szeto was a deputy manager at Ka Wah Bank Limited and 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 Hong Kong Tourism Board, a member of executive committee of the Hong Kong Retail Management Association, the vice-chairperson of the executive committee and the chairperson of the committee on Social Enterprise and Employment of The Hong Kong Society for Rehabilitation, and a professor of practice (finance) 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. Dr. Szeto graduated from Hong Kong Shue Yan College with a diploma in economics and obtained a doctor of philosophy in education administration from the University of Southern Mississippi. Dr. Szeto is currently a Fellow FCPA (Aust.) of CPA Australia.

Ms. WONG Pui Chu, aged 61, 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 34 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KIU Wai Ming, aged 72, 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 (stock code: 1386), an executive director and the chief executive officer of China Smarter Energy Group Holdings Limited (stock code: 1004), a director, deputy general manager and alternate chief executive of Industrial and Commercial Bank of China (Asia) Limited, a director of Dah Sing Financial Holdings Limited (stock code: 440) and a director and alternate chief executive of Dah Sing Bank Limited, an independent non-executive director of Man Sang International Limited (stock code: 938). Mr. Kiu obtained a Bachelor of Science from Louisiana State University and Agricultural and Mechanical College.

Prof. SIN Yat Ming, aged 65, 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. Prof. Sin had been a member of the Faculty of Business Administration of The Chinese University of Hong Kong ("CUHK") for 35 years. He was a professor of CUHK and an associate director of CUHK's Center for Hospitality and Real Estate Research. He is an advisor to the Hong Kong Institute of Marketing, the Honorary Institute Fellow of The Asia-Pacific Institute of Business and adjunct professor of Department of Management of CUHK Business School, CUHK. Prof. Sin obtained a Doctor of Philosophy in Business Administration from the University of British Columbia, Master of Business Administration from the University of Texas at Arlington and a Bachelor of Business Administration from CUHK. Prof. Sin is currently an independent non-executive director of Bossini International Holdings Limited (stock code: 592).

Mr. Andrew LOOK, aged 56, 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 of experience in the equity investment analysis of Hong Kong and China stock markets. 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 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). He was an independent non-executive director of TCL Communication Technology Holdings Limited (a company delisted on the Hong Kong Stock Exchange on 30 September 2016), Man Sang Jewellery Holdings Limited (stock code: 1466), Cowell e Holdings Inc. (stock code: 1415) and the chief investment officer of the asset management business of Tou Rong Chang Fu Group Limited (stock code: 850, company name changed to Long Well International Holdings Limited in January 2020).

SENIOR MANAGEMENT

Ms. TULL Shuk Ching, aged 58, is the general manager of our retail operations and management division responsible for the division's business development, operations and staff training. She has over 27 years of experience in business operations and administration. Prior to joining our Group in December 1998, Ms. Tull was an operation manager at Gialitti Gelato and Foods (China) Ltd and Wellco Enterprises Ltd. Ms. Tull obtained a Bachelor of Law from Peking University and a Bachelor of Arts from the National Cheungchi University. She also obtained a postgraduate certificate in business administration from The Open University of Hong Kong and passed the 5-S lead auditor training course held by Hong Kong Baptist University Business Research Centre and Hong Kong 5-S Association. She also obtained various qualifications in Chinese medicine, 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, and a Certificate in Dispensing (Practicum) in Chinese Medicine and Foundation Certificate in Chinese Medicine from Hong Kong Baptist University.

Ms. POON Chi Nga, aged 50, is the general manager of our bottled drinks development division responsible for the division's business development, and sales and marketing. She has over 27 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; a product manager and category manager at Swamex Food Service Ltd (formerly known as Lam Soon Food Supply Co. Ltd.); an operations and administrations manager at Lucullus Food and Wines Co. Ltd. Ms. Poon obtained a Master of Business Administration from the University of Leicester and a Higher Diploma in Hotel and Catering Management from The Hong Kong Polytechnic University.

Mr. LO Chi Wang, aged 43, is the financial controller of the Group. Mr. Lo joined the Group in 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 17 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. Mr. Lo was the financial controller of Sino Grandness Food Industry Group Limited (stock code: T4B, a company listed on the Singapore Stock Exchange) and has participated in the preparation of initial public offering project in the private sector.

Mr. Lo received a degree of Bachelor of Arts (Honour) in Accounting from Manchester Metropolitan University in Manchester, United Kingdom. He is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and a member of CPA Australia. He has been appointed as a co-opted member of Moderation Sub-groups under Qualification and Examinations Board ("QEB") of HKICPA since 2019 and a board member of QEB since January 2021.

Mr. Lo is currently an independent non-executive director of Dragon Rise Group Holdings Limited (stock code: 6829, a company listed on Main Board of the Stock Exchange), and Novacon Technology Group Limited (stock code: 8635, a company listed on Growth Enterprise Market Board of the Stock Exchange).

Mr. LEE Bang Lau, aged 63, is the assistant general manager of our Group responsible for the management of production facilities in Mainland China. Prior to his current position within our Group, he had worked in our logistics, plant production and procurement departments. He has over 32 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, a factory manager and management representative at Yaodong Plastic and Metal Product Co. Ltd, a production manager at Newtech Computer (HK) Ltd, a production manager and production supervisor at Wincotime Co. Ltd, and a production supervisor at Shenzhen Shajing Practical Hardware Factory.

Mr. LEUNG Tat Wing, aged 56, is the assistant general manager of the Group and responsible for facilitating and coordinating all matters involving treasury, production, trademark, legal and compliance. He has over 24 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 with certain finance related positions.

Ms. CHOU Siu Wai, Vivian, aged 44, is the senior manager of our Group and responsible for marketing, advertising, visual merchandising and corporate public relations. Ms. Chou has over 17 years of experience in fast-moving consumer goods marketing. Prior to joining our Group in December 2010, she was a senior product manager at Amoy Food Limited. She was a senior marketing executive and assistant product manager at Campbell Soup Asia Limited and a marketing executive at Swire Coca-Cola HK Limited. Ms. Chou obtained a Master of Science in Managerial Leadership from Edinburgh Napier University, a Bachelor of Arts in Language Information Science from City University of Hong Kong and a certification of project management from the International Association of Project and Programme Management.

Ms. TSANG Tsz Yee, Sonia, aged 44, is the senior manager of our Group and responsible for human resource management, people development and administration. Ms. Tsang has over 21 years of experience in human resource management and people development. Prior to joining our Group in March 2007, she was a human resources and training officer at Laws group. She was an officer II in the training and development department of Christian Action and a counsellor of Hong Kong Church of Christ Company Limited. She has been a fully qualified and accredited administrator of the Myers-Briggs Type Indicator suite of instruments. Ms. Tsang obtained a Bachelor of Business in Management from RMIT University and a Higher Diploma in Manufacturing Engineering from Hong Kong Technical College.

Mr. SUN Man Lung, aged 45, is the manager of our Group and responsible for customer relationship management and institutional sales. Mr. Sun has over 22 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, and also worked as a marketing supervisor at Maxion International Group Limited and Open Fortune Community (HK) Ltd., and as a sales executive at Longain Watches Manufacturing Ltd. and Ceba Precision Co., Ltd.. Mr. Sun obtained a Professional Diploma in Marketing from Chinese University of Hong Kong and a Certificate in Customer Relationship Management from Hong Kong Baptist University's School of Continuing Education.

Mr. LAU Siu Ki, aged 62, is the company secretary of the Group and was appointed in May 2015. He has over 15 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, a company listed on Main Board of the Stock Exchange) and Expert Systems Holdings Limited (stock code: 8319, a company listed on Growth Enterprise Market Board of the Stock Exchange). Mr. Lau is a fellow member of both the ACCA and the HKICPA.

DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present to the shareholders of the Company their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2020.

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, an associate and joint ventures of the Company are set out in Note 14 and Note 15 to the consolidated financial statements. The segment information of the operations of the Group for the year ended 31 December 2020 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 2020 as well as outlook/prospects of the Group's business are provided in the sections "Chairman's Statement" on pages 8 to 10 and "Management Discussion and Analysis" on pages 11 to 18 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:

- Outbreak of Novel Coronavirus may affect the spending behaviours of customers

  In view of growing public concern over health and hygiene amidst the outbreak of the Novel Coronavirus, the Group recognises the need to remind its customers of the benefits and importance of a healthy diet. Communications will therefore focus on guiding customers on how to strengthen their health, including their immune system, with the Group's nutritious herbal drinks, soups and food products. Moreover, with work from home and stay at home now a common practice, the Group will bolster its online shopping and delivery services still further so as to serve customers whenever they may be. In addition, the Group will continue to observe rigorous hygiene standards at our shops, factories and workplaces, hence protect the well-being of customers and staff alike.

- 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 2020, there are over 1,024,000 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

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 58 to 125 and 16 to 18, 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 19 and 20 of this Annual Report and further details will be disclosed in our 2020 ESG Report to be published in June 2021 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 2020 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. The Group also strives to provide a safe working environment for all its staff members, which is particularly important amidst the outbreak of the Novel Coronavirus.

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. The Group also promoted the use of the Hung Fook Tong mobile application to enhance members' convenience.

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 8 to 10, 11 to 18, 19 to 20 and 37 to 48, respectively, of this Annual Report, further details will be disclosed in our 2020 ESG Report to be published in June 2021.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income on pages 58 to 59 of this Annual Report.

A special dividend of HK0.90 cent per ordinary share was paid in September 2020. A final dividend in respect of the year ended 31 December 2020 of HK1.96 cents per ordinary share was proposed by the Board. The proposed final dividend amounted to a total of HK$12,850,000 has to be approved by shareholders in the forthcoming annual general meeting ("AGM"). The proposed final dividend is not reflected as dividend payable in the consolidated statement of financial position as at 31 December 2020, but will be reflected as an appropriation of share premium for the year ending 31 December 2021.

Subject to the approval of the shareholders at the forthcoming AGM, the final dividend will be payable on or about Monday, 12 July 2021 to the shareholders whose name appears on the Register of Members of the Company at the close of business on Tuesday, 15 June 2021.

RESERVES

Movements in the reserves of the Company and of the Group during the year are set out in Note 37 to the consolidated financial statements and the consolidated statement of changes in equity on page 62 of this Annual Report.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to shareholders amounted to approximately HK$318.4 million comprising share premium of approximately HK$209.5 million, other reserves of approximately HK$108.0 million and retained earnings of HK$0.9 million.

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

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Friday, 4 June 2021, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Friday, 4 June 2021, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 31 May 2021.

For determining the entitlement to the proposed final dividend (subject to the approval of the shareholders at the AGM), the register of members of the Company will be closed from Friday, 11 June 2021 to Tuesday, 15 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 10 June 2021.

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 126 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 23 to the consolidated financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2020 are set out in Note 31 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 2020.

DONATIONS

Charitable donations made by the Group during the year ended 31 December 2020 amounted to HK$916,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the aggregate sales attributable to the Group's five largest customers were less than 30%. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30%.

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)*
Dr. SZETO Wing Fu *(Chief Executive Officer)*
Ms. WONG Pui Chu

Independent Non-Executive Directors:

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

Pursuant to Article 84(1) and (2) of the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire by rotation at each AGM. 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. Ms. Wong Pui Chu and Mr. Kiu Wai Ming shall retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 22 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 2020 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 renewed letter of appointment for a further term of three years commencing from 11 June 2020. 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 2020, 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	Capacity/Nature of interest	Number of ordinary shares of the Company ("Shares")	Approximate percentage of total issued Shares (%)
Ms. Wong Pui Chu (Notes 1, 2 & 3)	Interests held jointly with other persons; beneficial owner; interest of controlled corporation	398,522,600 (Long position)	60.76
Mr. Tse Po Tat (Notes 1 & 4)	Interests held jointly with other persons; interest of controlled corporation	398,522,600 (Long position)	60.76
Dr. Szeto Wing Fu (Notes 5 & 6)	Beneficial owner; interest of controlled corporation	25,704,600 (Long position)	3.91

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"), the Controlling Shareholders 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 1.02% (being 6,706,000 Shares) by Ms. Wong Pui Chu.

(3) The Company was directly owned as to 29.22% (being 191,638,200 Shares) by Think Expert 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 0.15% (being 1,000,000 Shares) by Dr. Szeto Wing Fu.

(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 2020, 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 2020, 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	Capacity/Nature of interest	Number of Shares	Approximate percentage of total issued Shares (%)
Prestigious Time (Note 1)	Interests held jointly with other persons; beneficial owner	398,552,600 (Long position)	60.76
Think Expert (Note 2)	Interests held jointly with other persons; beneficial owner	398,552,600 (Long position)	60.76

Name of shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of total issued Shares (%)
YITAO (Note 3)	Interests held jointly with other persons; beneficial owner	398,552,600 (Long position)	60.76
Ms. Chan Suk Hing Comita (Note 4)	Interest of spouse	398,552,600 (Long position)	60.76
Mr. Kwan Wang Yung (deceased)	Interests held jointly with other persons; interest of controlled corporation	398,552,600 (Long position)	60.76
Mrs. Kwan Chan Lai Lai (Note 5)	Interest of spouse	398,552,600 (Long position)	60.76

Notes:

(1) The Company was directly owned as to 13.89% (being 91,086,000 Shares) by Prestigious Time. By virtue of his 100% shareholding of Prestigious Time, the late Mr. Kwan Wang Yung (the former managing Director and an executive Director of the Company) is deemed to be interested in the same number of Shares held by Prestigious Time.

(2) 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".

(3) 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".

(4) 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.

(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 2020, 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 2020 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 2020, 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 2020.

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 Shareholder (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 2020 or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2020, 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 38 to the consolidated financial statements.

CHANGES IN INFORMATION OF DIRECTORS

Subsequent to publication of the 2020 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:

– Prof. Sin Yat Ming, independent non-executive Director of the Company, has been appointed as the chairman of the remuneration committee of Bossini International Holdings Limited (Stock code: 592) with effect from 17 November 2020.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float as required under the Listing Rules throughout the year ended 31 December 2020.

DEED OF NON-COMPETITION

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 2020.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the "Corporate Governance Report" on pages 37 to 48 of this Annual Report.

AUDITOR

PricewaterhouseCoopers will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be proposed at the AGM to be held on Friday, 4 June 2021 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 32 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed. The Company has complied with disclosure requirements in accordance with Chapter 14A of the Listing Rules for the year ended 31 December 2020.

On behalf of the Board

Tse Po Tat
Chairman and Executive Director

Hong Kong, 29 March 2021

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 2020.

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 2020.

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 positions of chairman of the Board (the "Chairman") of the Company is Mr. Tse Po Tat ("Mr. Tse") and chief executive officer ("CEO") of the Company is Dr. Szeto Wing Fu ("Dr. Szeto"). Mr. Tse provides leadership and is responsible for effective functioning and leadership of the Board, while Dr. Szeto continues to focus 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 Directors	Position
Mr. Tse Po Tat	Chairman and executive Director
Dr. Szeto Wing Fu	CEO and executive Director
Ms. Wong Pui Chu	Executive Director
Mr. Kiu Wai Ming	Independent non-executive Director
Prof. Sin Yat Ming	Independent non-executive Director
Mr. Andrew Look	Independent non-executive Director

Detailed biographies of the Directors are shown on pages 22 and 23 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 2020. 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 2020, 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 2020 are listed below:

	Board Meetings		General Meeting	
Name of Directors	Number of meetings held during the year	Number of meetings attended	Number of meeting held during the year	Number of meeting attended
Mr. Tse Po Tat	4	4	1	1
Dr. Szeto Wing Fu	4	4	1	1
Ms. Wong Pui Chu	4	4	1	1
Mr. Kiu Wai Ming	4	4	1	1
Prof. Sin Yat Ming	4	4	1	1
Mr. 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 Prof. 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, reappointment and/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 and the attendance of the committee members at the meetings is listed below:

Name of Directors	Number of meetings held during the year	Number of meetings attended
Mr. Andrew Look	3	3
Mr. Kiu Wai Ming	3	3
Prof. Sin Yat Ming	3	3

At the meetings, the Audit Committee had performed the followings:

- reviewed the audited annual financial statements for the year ended 31 December 2019;
- reviewed the unaudited interim financial statements for the six months ended 30 June 2020;
- 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 Prof. 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 Directors and 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	5
HK$1,000,001 to HK$1,500,000	3

The details of the fees and other emoluments paid or payable to the Directors are set out in Note 38 to the consolidated financial statements.

Nomination Committee

The Nomination Committee consists of four members, three of whom are independent non-executive Directors, namely Mr. Kiu Wai Ming (Chairman), Prof. Sin Yat Ming and Mr. Andrew Look; and the other member is an executive Director, Dr. Szeto Wing Fu.

The primary role of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board 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 and review 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 and the attendance of the committee members at the meeting is listed below:

Name of Directors	Number of meetings held during the year	Number of meetings attended
Mr. Kiu Wai Ming	1	1
Dr. Szeto Wing Fu	1	1
Mr. Andrew Look	1	1
Prof. Sin Yat Ming	1	1

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 the Director 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; 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 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 of Directors to the Nomination Committee of the Company.

The content of the policy is summarised 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 diversity of perspectives;

– 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 that 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 therein 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 five male and one female Directors with different age, length of service and diversity perspectives, which have been disclosed in biographical information shown in "Directors and Senior Management" on pages 22 to 25 of this Annual Report.

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.

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 both members 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.

During the year, the Company has appointed a firm of independent internal control consultants to work closely with the internal audit department to achieve the above mentioned objectives.

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 2020, 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 2020 and the audit services for the year ended 31 December 2020 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$34,000.

Directors' and Auditor's Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for the preparation of financial statements of the Group which give a true and fair view. 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 49 to 57 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, Chief Executive Officer 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 organised 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 the Dividend Policy as appropriate from time to time.

The Dividend 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 2020, the Company has not made any amendment to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

Independent Auditor's Report
To the Shareholders of Hung Fook Tong Group Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hung Fook Tong Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 125, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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 2020, 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:

- Impairment assessment of 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 Matters	How our audit addressed the Key Audit Matters
Impairment assessment of trade receivables Refer to note 4(d) and note 20 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$42.4 million, of which over 43% was past due. The Group is therefore exposed to a risk of default in respect of trade receivables, in particular, those past due and long-aged trade receivable balances. Management applied the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. In developing the loss allowances of trade receivables, management used judgement in making the assumptions about the risk of default and expected credit loss rate.	We obtained an understanding of the management's internal control and assessment process of expected credit losses of trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as significant judgements involved in determining collectability of trade receivables and selecting data for the calculation of loss allowance. We evaluated and tested management's key controls in respect of management's assessment of expected credit losses of trade receivables, including ageing analysis, review and regular assessment performed on collectability of the receivable balances. We assessed the appropriateness of the impairment methodology in determining the provision for credit loss allowance. We evaluated the outcome of prior period assessment of the estimation of expected credit losses in respect of trade receivables to assess the effectiveness of management's estimation process.

KEY AUDIT MATTERS (Continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment assessment of trade receivables (Continued) The trade receivables were grouped based on business segments, geographical locations and credit risk characteristics, and collectively assessed for likelihood of recovery, taking into consideration their ageing category and historical credit loss experience. The expected credit loss rates were determined based on historical default rates and were adjusted to reflect forward-looking information on macroeconomic factors. In addition, for receivables related to customers with known financial difficulties or significant doubt in collection of receivables, specific provision was made based on the estimated amount, taking into consideration of the relationship with customers, credit history, business performance and financial capability of those customers and other relevant factors. We focused on this area due to the inherent risk in relation to the estimation of expected credit losses in respect of trade receivables is considered significant due to significant judgements involved in determining collectability of trade receivables and selecting data for the calculation of loss allowance.	We tested the reliability of historical data used in the credit loss model, on a sample basis, to relevant supporting evidence. We challenged management for the use of forward-looking information in adjusting the credit loss rates by comparing to external market data or public available information. We tested ageing of trade receivables used in the calculation of loss allowance, on a sample basis, to invoices and other relevant documents. We independently assessed the recoverability of a sample of accounts receivable balances, focusing on long overdue balances. We assessed the collectability of the balances by checking the supporting evidence, including subsequent settlements, credit history, business performance and financial capability of these customers. Based on the procedures performed, we considered that the risk assessment of the expected credit losses of trade receivables remained appropriate and the impairment methodology and key data used by management in the assessment of the expected credit losses were supported by the available evidence. Based upon the above, we considered that management judgements and assumptions applied in the expected credit losses of trade receivables were supportable by the evidence obtained and procedures performed.

KEY AUDIT MATTERS (Continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Sales rebates and discounts in wholesale of bottled drinks Refer to note 2.26(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 the end of each reporting period with reference to the latest available sales contracts and accumulated experience using the most likely amount method. 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 a refund liability or a reduction against trade receivables, depending on their nature.	We obtained an understanding of the management's internal control and assessment process of the provision of sales rebate and discounts granted to customers and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as the complexity of various arrangements with different customers and the significant judgement and estimation by management. We evaluated and tested management's key controls 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 evaluated the outcome of prior period assessment of the provisions of sales rebate and discounts to assess the effectiveness of management's estimation process. We conducted substantive testing of sales rebates and discounts recognised during the year, on a sample basis, 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.

KEY AUDIT MATTERS (Continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Sales rebates and discounts in wholesale of bottled drinks (Continued) We focused on this area because the arrangements of rebates and discounts with different customers are inherently complex; and establishing an appropriate refund liability requires management's judgement and estimation.	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 on the procedures performed, we considered that the risk assessment of the provision of sales rebates and discounts remained appropriate and the provision of sales rebates and discounts were supported by the available evidence. Based upon the above, we considered that management judgement and estimation applied in respect of the relevant sales rebates and discounts were supportable by the evidence obtained and procedures performed.
Revenue recognition for the sales of goods through pre-paid coupons and credits Refer to note 2.26(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, sold and granted 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 and credits are referred 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 and credits redeemed by customers. Any unutilised prepayments are fully recognised in the consolidated statement of comprehensive income upon their expiry.	We understood, evaluated and tested management's key controls in respect of revenue recognition for the sales of goods through pre-paid coupons and credits, including the recording of proceeds received from the 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.

KEY AUDIT MATTERS (Continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Revenue recognition for the sales of goods through pre-paid coupons and credits (Continued) During the year ended 31 December 2020, revenue recognised in the consolidated statement of comprehensive income from the sales of goods through pre-paid coupons and credits relating to the Hong Kong retail business amounted to HK$350,104,000. As at 31 December 2020, the Group had receipts in advance of HK$157,298,000 relating to the Hong Kong retail business. We focused on this area due to the estimation of the breakage and 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 conducted substantive testing of pre-paid coupons and credits redeemed and expired during the year, on a sample basis, with reference to the underlying records. We also inspected, on a sample 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 sample basis. We obtained an understanding of the management's internal control and assessment process of the estimation of breakage with respect to pre-paid coupons and credits, and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity and the significant judgement and estimation by management. We evaluated the outcome of prior period assessment of the estimation of breakage to assess the effectiveness of management's estimation process. 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 2020", "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.

The 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 the 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the 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 Lai Pui Ling, Sandra.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Year ended 31 December 2020 HK$'000	2019 HK$'000
Revenue	5,6	**702,473**	775,789
Cost of sales	8	**(254,653)**	(287,084)
Gross profit		**447,820**	488,705
Other income, net	7	**13,412**	3,948
Selling and distribution costs	8	**(71,365)**	(89,689)
Administrative and operating expenses	8	**(313,467)**	(381,237)
Impairment loss on financial assets	8	**(2,415)**	(1,875)
Operating profit		**73,985**	19,852
Finance income	10	**66**	81
Finance costs	10	**(7,256)**	(6,208)
Finance costs, net	10	**(7,190)**	(6,127)
Share of losses of an associate and joint ventures accounted for using the equity method	15	**(19)**	(55)
Profit before income tax		**66,776**	13,670
Income tax expense	11	**(5,463)**	(3,268)
Profit for the year		**61,313**	10,402
Profit/(loss) attributable to:			
Owners of the Company		**62,530**	10,012
Non-controlling interests		**(1,217)**	390
		61,313	10,402
Other comprehensive income/(loss):			
Item that may be reclassified to profit or loss			
— Currency translation differences		**12,941**	(4,123)
Other comprehensive income/(loss), net of tax		**12,941**	(4,123)
Total comprehensive income for the year		**74,254**	6,279

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

		Year ended 31 December	
		2020	2019
	Note	**HK$'000**	HK$'000
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**75,328**	5,963
Non-controlling interests		**(1,074)**	316
		74,254	6,279
Earnings per share for profit attributable to owners of the Company			
— Basic and diluted (HK cents per share)	12	**9.53**	1.53

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	As at 31 December 2020 HK$'000	2019 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**310,348**	309,148
Right-of-use assets	17	**213,571**	204,016
Investments in an associate and joint ventures	15	**36**	55
Prepayments and deposits	21	**36,578**	28,486
Deferred income tax assets	26	**14,891**	7,594
		575,424	549,299
Current assets			
Inventories	18	**46,047**	43,768
Trade receivables	20	**42,438**	48,220
Prepayments, deposits and other receivables	21	**32,225**	50,806
Amount due from a related company	32	**690**	690
Tax recoverable		**2,798**	986
Cash and cash equivalents	22	**134,905**	95,353
		259,103	239,823
Total assets		**834,527**	789,122
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**6,559**	6,559
Reserves	24	**329,040**	265,125
		335,599	271,684
Non-controlling interests		**(991)**	83
Total equity		**334,608**	271,767

	Note	As at 31 December 2020 HK$'000	2019 HK$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	17	**81,077**	71,124
Provision for reinstatement costs	29	**5,268**	4,495
Deferred income tax liabilities	26	**9,457**	93
Bank borrowings	31	**8,213**	58,879
		104,015	134,591
Current liabilities			
Trade payables	27	**29,078**	34,720
Accruals and other payables	28	**74,687**	64,727
Provision for reinstatement costs	29	**2,437**	2,859
Receipts in advance	30	**157,298**	162,044
Lease liabilities	17	**94,705**	82,333
Bank borrowings	31	**33,386**	34,732
Taxation payable		**4,313**	1,349
		395,904	382,764
Total liabilities		**499,919**	517,355
Total equity and liabilities		**834,527**	789,122
Net current liabilities		**(136,801)**	(142,941)
Total assets less current liabilities		**438,623**	406,358

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 58 to 125 were approved by the Board of Directors on 29 March 2021 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 2020

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve (Note 24) HK$'000	Share based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings (Note 24) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
For the year ended 31 December 2020									
Balance at 1 January 2020	**6,559**	**214,999**	**8,123**	**5,421**	**(8,362)**	**44,944**	**271,684**	**83**	**271,767**
Comprehensive income/(loss)									
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**62,530**	**62,530**	**(1,217)**	**61,313**
Other comprehensive income									
Currency translation differences	**–**	**–**	**–**	**–**	**12,798**	**–**	**12,798**	**143**	**12,941**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**12,798**	**62,530**	**75,328**	**(1,074)**	**74,254**
Transaction with owners									
2019 final and special dividends (Note 13)	**–**	**(5,510)**	**–**	**–**	**–**	**–**	**(5,510)**	**–**	**(5,510)**
2020 special dividend (Note 13)	**–**	**–**	**–**	**–**	**–**	**(5,903)**	**(5,903)**	**–**	**(5,903)**
Balance at 31 December 2020	**6,559**	**209,489**	**8,123**	**5,421**	**4,436**	**101,571**	**335,599**	**(991)**	**334,608**
For the year ended 31 December 2019									
Balance at 1 January 2019	6,559	214,999	8,123	5,421	(4,313)	40,114	270,903	(233)	270,670
Comprehensive income									
Profit for the year	–	–	–	–	–	10,012	10,012	390	10,402
Other comprehensive loss									
Currency translation differences	–	–	–	–	(4,049)	–	(4,049)	(74)	(4,123)
Total comprehensive (loss)/income for the year	–	–	–	–	(4,049)	10,012	5,963	316	6,279
Transaction with owners									
2018 final and special dividends (Note 13)	–	–	–	–	–	(5,182)	(5,182)	–	(5,182)
Balance at 31 December 2019	6,559	214,999	8,123	5,421	(8,362)	44,944	271,684	83	271,767

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Year ended 31 December 2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Cash generated from operations	33(a)	**221,979**	106,414
Income tax (paid)/refund		**(1,892)**	1,146
Net cash generated from operating activities		**220,087**	107,560
Cash flows from investing activities			
Purchase of property, plant and equipment		**(31,570)**	(45,181)
Payment for acquisition of right-of-use asset		**–**	(1,647)
Proceeds from disposal of property, plant and equipment	33(b)	**146**	2,061
Reinstatement costs paid for shop and office premises		**(287)**	(1,332)
Investments in joint ventures		**–**	(110)
Payment for acquisition of a subsidiary, net of cash acquired		**–**	(400)
Interest received		**66**	81
Net cash used in investing activities		**(31,645)**	(46,528)
Cash flows from financing activities			
Payment for lease liabilities (including interest)	17	**(84,349)**	(83,763)
Proceeds from bank borrowings		**45,000**	105,000
Repayment of bank borrowings		**(97,012)**	(105,481)
Dividend paid to the Company's shareholders	13	**(11,413)**	(5,182)
Interest paid on borrowing	10	**(2,495)**	(2,946)
Net cash used in financing activities		**(150,269)**	(92,372)
Net increase/(decrease) in cash and cash equivalents		**38,173**	(31,340)
Effect of currency translation difference		**1,379**	(1,698)
Cash and cash equivalents at beginning of year		**95,353**	128,391
Cash and cash equivalents at end of year	22	**134,905**	95,353

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

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

The Company is an investment holding company. The Company and its subsidiaries (together the "Group") are principally engaged in the retail, wholesale and distribution of bottled drinks, other herbal products, 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 29 March 2021.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and 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 judgement 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$136,801,000 as at 31 December 2020 (2019: HK$142,941,000). The directors of the Company have reviewed the Group's cash flow projections, which covers a period of 12 months from 31 December 2020. The directors are of the opinion that, taking into account the anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance and the continued availability of the Group's banking facilities, the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming 12 months from 31 December 2020. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies

(a) Amended standards and revised conceptual framework adopted by the Group

The Group has applied the following amendments to standards and revised conceptual framework for the first time for their annual reporting period commencing 1 January 2020:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge Accounting
HKFRS 3 (Amendments)	Definition of Business
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The newly adopted amendments to existing standards and revised conceptual framework listed above did not have material impact on the results and financial position of the Group.

(b) New and amended standards, improvement, interpretation and accounting guideline not yet adopted

The following new standard, amendments to existing standards, improvement, interpretation and accounting guideline have been issued but are not effective for the financial year beginning on or after 1 January 2020 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 16 (Amendments)	Covid-19 Related Rent Concessions	1 June 2020
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Annual Improvements Project	Annual Improvements to HKFRSs Standards 2018 – 2020	1 January 2022
Amendments to HKFRS 3, HKAS 16, and HKAS 37	Narrow-scope Amendments	1 January 2022
Hong Kong Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HK (IFRIC) – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
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 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

(b) New and amended standards, improvement, interpretation and accounting guideline not yet adopted (Continued)

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

2.3 Principles of consolidation and equity accounting

2.3.1 Subsidiary

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. The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.4).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of financial position and statement of changes in equity respectively.

2.3.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see note 2.3.4 below), after initially being recognised at cost.

2.3.3 Joint arrangement

Under HKFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures only.

Investment in joint ventures are accounted for using the equity method (see note 2.3.4 below), after initially being recognised at cost in the statement of financial position.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.4 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from an associate and a joint venture are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group. The carrying amount of equity-accounted investments is tested for impairment in accordance with note 2.10.

2.3.5 Changes in ownership interests

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.

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.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred and 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 profit or loss.

2.5 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.

2.6 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 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 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 profit of loss. All foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income, net'.

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) 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, or a disposal involving loss of joint control over a joint venture 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 profit or loss.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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 profit or loss during the financial year in which they are incurred.

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

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 2.10).

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 income, net' in the consolidated statement of comprehensive income.

2.9 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. Leasehold land and land use rights are presented as right-of-use assets in the consolidated statement of financial position.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 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.

2.11 Financial assets

(a) Classification

The Group classifies its financial assets 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.

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.

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 income, net' together with foreign exchange gains and losses.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

(d) Impairment

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 20 for further details.

2.12 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. There is no offsetting of financial instruments as at 31 December 2020 and 2019.

2.13 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.

2.14 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 2.11 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.

2.15 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 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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.

2.17 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.

2.18 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 profit of loss over the period of the borrowings using the effective interest method.

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

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

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 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 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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

Deferred income tax is provided in full, 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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 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 end of the reporting period.

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 profit or loss as they become payable in accordance with the rules of the central pension schemes.

The subsidiaries of the Group in Hong Kong elected to contribute to the Mandatory Provident Fund Scheme ("MPF Scheme"). The MPF Scheme is a defined contribution retirement benefit plan administered by independent trustees. Under the MPF Scheme, both the employer and employees are required to contribute 5% of the employee's monthly salaries (capped at HK$30,000). Contributions from the employer equivalent to the contribution as specified at the rules of the MPF Scheme are 100% vested as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the age of 65, subject to a few exceptions.

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

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

(c) Profit-sharing and bonus plans

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee benefits (Continued)

(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.

2.22 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 profit of loss, with a corresponding adjustment to equity.

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

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

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 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.

2.24 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 right-of-use assets in the consolidated statement of financial position (see note 2.27).

2.25 Contract liabilities

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration. Contract liabilities comprise of "receipt in advance" and "deferred revenue" in the consolidated statement of financial position.

2.26 Revenue recognition

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

(a) Sales of goods – retail

The Group operates a chain of retail stores in Hong Kong 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.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(a) Sales of goods – retail (Continued)

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, sold and granted 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 the end of each reporting period with reference to the latest available sales contracts and accumulated experience, using the most likely amount method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. Sales rebates and discounts granted to customers are deducted from gross sales in arriving at revenue.

(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.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Leases

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and makes adjustments specific to the lease.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- any restoration cost.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise vending machines and small items of office furniture.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Leases (Continued)

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

2.28 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as interest income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in "interest income".

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.29 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.

2.30 Government grant

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2020, if RMB had strengthened/weakened by 5% (2019: 5%) against Hong Kong dollar with all other variables held constant, pre-tax profit for the year would have been approximately HK$391,000 higher/lower (2019: HK$368,000 higher/lower), respectively, mainly as a result of foreign exchange gains/losses on translation of RMB denominated bank deposits and cash and cash equivalents.

(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 2020, 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$238,000 higher/lower (2019: HK$90,000 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 company, and cash and cash equivalents.

Management considers that the Group has limited credit risk with its banks which are leading and reputable with investment grade credit rating (Moody's: Baa3 or above; Standard & Poor's: BBB- or above; Fitch: BBB- or above). 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 2020.

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 2020, top five customers of the Group accounted for approximately 65% (2019: 55%) 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 the customers and the collection history of these 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, relationship with counterparties, 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, 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 – collective basis

To measure the expected credit losses, trade receivables have been grouped based on business segments, geographical locations and credit risk characteristics, and collectively assessed for likelihood of recovery, taking into consideration their ageing category and historical credit loss experience.

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 – collective basis (Continued)

The Group divided trade receivables into four categories. Category 1 is for customers conducting wholesale business in the PRC; Category 2 is for corporate customers in Hong Kong under "Hong Kong Retail" segment; Category 3 is for customers conducting wholesale business in Hong Kong and other regions; and Category 4 is for receivables from electronic payment service providers under "Hong Kong Retail" segment. With different types of customers, the Group calculated the expected loss rate respectively.

The expected loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the common credit risk characteristics. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. For customers relating to wholesale business in the PRC, the Group has identified the PRC's GDP growth rate and population growth rate to be the most relevant factors. For customers relating to business in Hong Kong, the Group has identified the Hong Kong's GDP growth rate and inflation rate to be the most relevant factors. The Group adjusts the historical loss rates based on expected changes in these factors accordingly.

On that basis, the loss allowance as at 31 December 2020 and 2019 was determined as follows:

Category 1: Customers conducting wholesales 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 2020					
Expected loss rate	10.8%	21.3%	32.4% – 45%	100%	
Gross carrying amount – trade receivables	1,228	648	–	1,948	3,824
Loss allowance	(132)	(138)	–	(1,948)	(2,218)

The PRC trade receivables in collective basis are insignificant and the expected credit losses allowance for those customers are close to zero for the year ended 31 December 2019.

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 – collective basis (Continued)

Category 2: Corporate customers in Hong Kong under "Hong Kong Retail" Segment

	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 2020					
Expected loss rate	**0.8%**	**1.4%**	**2.8%**	**10.4%**	
Gross carrying amount – trade receivables	**1,997**	**4,472**	**2,689**	**3,739**	**12,897**
Loss allowance	**(16)**	**(64)**	**(74)**	**(389)**	**(543)**
31 December 2019					
Expected loss rate	0%	0.8%	0.9%	5.4%	
Gross carrying amount – trade receivables	2,466	3,418	2,718	809	9,411
Loss allowance	–	(28)	(24)	(44)	(96)

For Category 3, customers conducting wholesale business in Hong Kong and other regions, and Category 4, receivables from electronic payment service providers under "Hong Kong Retail" segment, the directors of the Company are of the opinion that the expected credit loss of these customers is not significant and no provision has been made as at 31 December 2020 and 2019.

Measurement of expected credit loss – individual basis

In addition, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for specific provision for impairment allowance. As at 31 December 2020, the balance of specific provision for loss allowance in respect of these receivables was HK$480,000 (2019: HK$2,355,000).

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 2020 and 2019:

	2020 HK$'000	2019 HK$'000
Gross carrying amount	**480**	9,345
Loss allowance	**(480)**	(2,355)
Net carrying amount	**–**	6,990

Movements on the Group's provision for impairment of trade receivables are disclosed in note 20.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables are written off where there is no reasonable expectation of recovery indicators that, amongst others, the failure of a debtor to engage a repayment plan with the Group, and a failure to make contractual payments for a period.

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.

Other financial assets at amortised costs

During the year ended 31 December 2020, the management has assessed the credit risk of amount due from a non-controlling interest and shareholder loan to an associate individually and concluded that the probabilities of default and loss given default rate are close to 100%. Hence, the management has provided full provision of loss allowance on the above balances amounting to HK$1,000,000 and HK$625,000 respectively.

Except for the amount due from a non-controlling interest and shareholder loan to an associate, management considers that the credit risk of other financial assets 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 close to zero.

(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 end of the reporting period 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Specifically, for the borrowings which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	On demand or 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 2020				
Trade payables	**29,078**	**–**	**–**	**29,078**
Accruals and other payables	**42,641**	**–**	**–**	**42,641**
Bank borrowings	**34,177**	**5,106**	**3,261**	**42,544**
Lease liabilities	**98,362**	**63,244**	**19,289**	**180,895**
	204,258	**68,350**	**22,550**	**295,158**
As at 31 December 2019				
Trade payables	34,720	–	–	34,720
Accruals and other payables	41,712	–	–	41,712
Bank borrowings	35,783	26,242	34,508	96,533
Lease liabilities	85,463	72,497	–	157,960
	197,678	98,739	34,508	330,925

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 defined as total debts which include bank borrowings and lease liabilities, less cash and cash equivalents. 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

The gearing ratios at 31 December 2020 and 2019 were as follows:

	2020 HK$'000	2019 HK$'000
Bank borrowings (Note 31)	**41,599**	93,611
Lease liabilities (Note 17)	**175,782**	153,457
Less: Cash and cash equivalents (Note 22)	**(134,905)**	(95,353)
Net debt	**82,476**	151,715
Total equity	**334,608**	271,767
Total capital	**417,084**	423,482
Gearing ratio	**19.8%**	35.8%

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, lease liabilities and bank borrowings, approximate their fair values.

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 and depreciation charges of property, plant and equipment

Management determines the estimated useful lives and depreciation charges for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives 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 assets 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 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Net realisable value of inventories

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

(d) Provision for impairment of trade and other receivables

The Group follows the guidance of HKFRS 9 to determine when trade and other receivables are impaired. This determination requires significant judgement and estimation based on assumptions about risk of default and expected loss rates. In making this judgement 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).

(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 the end of each reporting period 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 the end of each reporting period with reference to the latest available sales contracts negotiated with the customers and accumulated experience using the most likely amount method. 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 2.26(b), are recognised either as refund liabilities or as reductions in trade receivables, depending on their nature.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(g) Sales rebates and discounts (Continued)

During the year, sales rebates and discounts granted to customers results in deduction to gross sales in arriving at revenue. As at 31 December 2020, unsettled balances for sales rebates and discounts of HK$4,149,000 (2019: HK$3,216,000) and HK$12,036,000 (2019: HK$13,462,000) are recognised as a refund liability and as a reduction against trade receivables, respectively.

(h) Estimation of breakage with respect to pre-paid coupons and credits

Revenue recognition on sales of goods through pre-paid coupons and credits is dependent on the estimation of the breakage and utilisation pattern of coupons and credits. Based on the Group's historical experience, the Group makes estimates of an expected amount of breakage. Actual breakage and 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.

Segment assets consist primarily of property, plant and equipment, right-of-use assets, inventories, trade receivables, prepayments, deposits and other receivables and cash and cash equivalents. They exclude amount due from a related company, investments in an associate and joint ventures, tax recoverable, deferred income tax assets and assets used for corporate functions.

Capital expenditure comprises additions to property, plant and equipment for the years ended 31 December 2020 and 2019.

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, share of losses of an associate and joint ventures accounted for using the equity method, impairment on loan to an associate, impairment on amount due from a non-controlling interest, finance income and costs and income tax expense are not included in segment results.

5 SEGMENT INFORMATION (Continued)

The segment information provided to the executive directors for the years ended 31 December 2020 and 2019 is as follows:

	Year ended 31 December 2020		
	Hong Kong Retail HK$'000	Wholesale HK$'000	Total HK$'000
Segment revenue	554,948	157,857	712,805
Less: Inter-segment revenue	(6,370)	(3,962)	(10,332)
Revenue from external customers	548,578	153,895	702,473
Segment results	109,793	8,093	117,886
Corporate expenses			(42,276)
Share of losses of an associate and a joint venture accounted for using the equity method			(19)
Impairment on loan to an associate			(625)
Impairment on amount due from a non-controlling interest			(1,000)
Finance costs, net			(7,190)
Profit before income tax			66,776
Income tax expense			(5,463)
Profit for the year			61,313
Other segment items:			
Capital expenditure	15,888	12,657	28,545
Depreciation and amortisation	116,044	13,088	129,132
Losses/(gains) on disposal of property, plant and equipment	96	(2)	94
Provision for impairment on trade receivables	446	344	790

5 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2019		
	Hong Kong Retail HK$'000	Wholesale HK$'000	Total HK$'000
Segment revenue	589,040	196,131	785,171
Less: Inter-segment revenue	(7,961)	(1,421)	(9,382)
Revenue from external customers	581,079	194,710	775,789
Segment results	81,111	(4,874)	76,237
Corporate expenses			(51,073)
Relocation of factories related expenses			(5,312)
Share of losses of joint ventures accounted for using the equity method			(55)
Finance costs, net			(6,127)
Profit before income tax			13,670
Income tax expense			(3,268)
Profit for the year			10,402
Other segment items:			
Capital expenditure	14,942	38,008	52,950
Depreciation and amortisation	103,727	8,841	112,568
Gains on disposal of property, plant and equipment	(15)	(506)	(521)
Provision for impairment on trade receivables	–	1,875	1,875

5 SEGMENT INFORMATION (Continued)

The segment assets as at 31 December 2020 and 2019 are as follows:

	Hong Kong Retail HK$'000	Wholesale HK$'000	Elimination HK$'000	Total HK$'000
As at 31 December 2020				
Segment assets	**526,938**	**281,100**	**(429)**	**807,609**
Amount due from a related company				**690**
Investments in an associate and a joint venture				**36**
Tax recoverable				**2,798**
Deferred income tax assets				**14,891**
Corporate assets				**8,503**
Total assets				**834,527**
As at 31 December 2019				
Segment assets	489,110	277,712	(607)	766,215
Amount due from a related company				690
Investments in joint ventures				55
Tax recoverable				986
Deferred income tax assets				7,594
Corporate assets				13,582
Total assets				789,122

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

The Company is domiciled in the Cayman Islands while the Group operates its business primarily in Hong Kong and the PRC. For the year ended 31 December 2020, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2019: Nil).

5 SEGMENT INFORMATION (Continued)

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

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Hong Kong	**669,443**	699,068
The PRC	**21,808**	59,743
Overseas countries	**11,222**	16,978
	702,473	775,789

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2020 and 2019.

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	
	2020	2019
	HK$'000	HK$'000
Hong Kong	**574,416**	537,764
The PRC	**233,193**	228,451
	807,609	766,215

Non-current assets, other than deferred income tax assets and investments in an associate and joint ventures, by geographical areas are as follows:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Hong Kong	**379,872**	373,623
The PRC	**180,625**	168,027
	560,497	541,650

6 REVENUE

The Group's revenue recognised at point in time during the year is as follows:

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Sale of goods	**702,473**	775,789

(a) Revenue recognition in relation to contract liabilities

As at 31 December 2020 and 2019, contract liabilities included receipts in advance and deferred revenue amounting to HK$157,298,000 (2019: HK$162,044,000) and HK$3,011,000 (2019: HK$2,693,000) 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:

	2020	2019
	HK$'000	HK$000
Revenue recognised that was included in the receipts in advance and deferred revenue balance at the beginning of the year	**164,737**	146,686

There is no revenue recognised during the current year (2019: same) related to performance obligations that were satisfied in prior year.

(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 INCOME, NET

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Government grants (Note (a))	**10,300**	–
Insurance claim	**58**	696
Management income (Note 32(b))	**627**	–
Service income	**1,059**	1,700
Exchange difference	**343**	25
(Losses)/gains on disposal of property, plant and equipment (Note (b))	**(94)**	509
Others	**1,119**	1,018
Total other income	**13,412**	3,948

7 OTHER INCOME, NET (Continued)

Notes:

(a) Government subsidies of HK$10,300,000 (2019: nil) represented grants from the one-off Retail Sector Subsidy Scheme and Food Licence Holders Subsidy Scheme under Anti-Epidemic Fund launched by the Government of the Hong Kong Special Administrative Region. The Group has complied all attached conditions before 31 December 2020 and recognised in profit or loss in "other income, net".

(b) Included in the balance for the year ended 31 December 2019 was a total loss of HK$12,000 which was derived from the relocation of production plant.

8 EXPENSES BY NATURE

		Year ended 31 December	
		2020	2019
	Note	**HK$'000**	HK$'000
Cost of inventories sold		**199,261**	222,018
Lease rental in respect of retail outlets (Note (a))			
— Minimum rental		**–**	19,685
— Contingent rental		**394**	285
Lease rental in respect of storage spaces and office premises (Note (a))		**10,613**	18,214
Advertising and promotional expenditure		**28,724**	33,592
Depreciation of property, plant and equipment	16	**34,744**	29,563
Depreciation of right-of-use assets	17(a)	**94,388**	83,005
Communication and utilities		**25,324**	33,706
Employee benefit expenses (including directors' emoluments)	9	**175,500**	238,896
Restructuring costs (Note (b))		**–**	5,300
Provision for obsolete inventories	18	**2**	342
Provision for impairment on loan to an associate		**625**	–
Provision for impairment on amount due from a non-controlling interest		**1,000**	–
Provision for impairment on trade receivables	20	**790**	1,875
Write-off of property, plant and equipment	16	**–**	165
Legal and professional fees		**4,368**	4,645
Auditors' remuneration			
— Audit services		**2,850**	2,850
— Non-audit services		**34**	390
Tools, repair and maintenance expenses		**12,582**	8,859
Transportation and distribution expenses		**29,145**	36,466
Others		**21,556**	20,029
Total cost of sales, selling and distribution costs, administrative and operating expenses and impairment loss on financial assets		**641,900**	759,885

8 EXPENSES BY NATURE (Continued)

Notes:

(a) These expenses included short-term leases expenses of HK$1,175,000 (2019:HK$25,018,000), variable leases payment expenses of HK$2,600,000 (2019:HK$3,716,000), and other rental-related expenses of HK$7,232,000 (2019:HK$9,450,000) for the year ended 31 December 2020.

(b) The restructuring costs primarily include termination benefits of HK$4,418,000 paid to employees as a result of the relocation of production plant for the year ended 31 December 2019.

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Wages, salaries and bonuses (Note)	**159,287**	219,562
Medical and other employee benefits	**9,684**	9,317
Retirement benefit costs – defined contribution plans	**6,529**	10,017
	175,500	238,896

Note: Wage subsidies of HK$35,246,000 (2019: nil) granted from the Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees from June to November 2020 has been received for the year ended 31 December 2020. The amounts of HK$5,165,000 and HK$30,081,000 were recognised in "cost of sales" and "administrative and operating expenses" respectively and had been offset against with employee benefit expenses.

(a) Five highest paid individuals

For the year ended 31 December 2020, the five individuals whose emoluments were the highest in the Group include three directors (2019: three directors), whose emoluments are reflected in the analysis shown in note 38. The emoluments paid/payable to the remaining two individuals (2019: two individuals) are as follows:

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Wages, salaries and bonuses and benefits in kind	**2,296**	2,217
Bonuses	**479**	296
Retirement benefit costs – defined contribution plans	**36**	36
	2,811	2,549

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.

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

(a) Five highest paid individuals (Continued)

The emoluments of these highest paid individuals fall within the following band:

	Number of individuals	
	2020	2019
Emolument band		
HK$1,000,001 to HK$1,500,000	**2**	2

10 FINANCE COSTS, NET

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Finance income:		
— Interest income	**66**	81
Finance costs:		
— Interest expenses on borrowings	**(2,495)**	(2,946)
— Interest and finance charges paid/payable for lease Liabilities (Note 17(b))	**(4,761)**	(3,829)
	(7,256)	(6,775)
Amount capitalised (Note)	**–**	567
	(7,256)	(6,208)
Finance costs, net	**(7,190)**	(6,127)

Note:

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings for the year ended 31 December 2019 of 3.12%.

11 INCOME TAX EXPENSE

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2020 (2019: 16.5%) on the estimated assessable profit for the year.

PRC Corporate income tax

Group entities 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 these subsidiaries is 25% (2019: 25%).

11 INCOME TAX EXPENSE (Continued)

The amount of income tax expense represents:

	Year ended 31 December	
	2020	2019
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax for the year	**2,062**	–
PRC CIT for the year	**956**	255
Over-provision in prior years	**–**	(1,317)
Deferred income tax (Note 26)	**2,445**	4,330
Income tax expense	**5,463**	3,268

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	
	2020	2019
	HK$'000	HK$'000
Profit before income tax	**66,776**	13,670
Tax calculated at 16.5% (2019: 16.5%)	**11,018**	2,256
Effect of different tax rates applicable to subsidiaries in the respective locations	**991**	(1,220)
Income not subject to tax	**(7,581)**	(8)
Expenses not deductible for tax purposes	**2,332**	1,430
Tax loss not recognised	**1,125**	4,106
Utilisation of previously unrecognised tax loss	**(2,422)**	(1,266)
Recognition of previously unrecognised deferred tax loss	**–**	(713)
Over-provision of income tax expense in prior years	**–**	(1,317)
Income tax expense	**5,463**	3,268

12 EARNINGS PER SHARE

	Year ended 31 December	
	2020	2019
Profit attributable to owners of the Company (HK$'000)	**62,530**	10,012
Weighted average number of ordinary shares for the calculation of basic earnings per share (thousands)	**655,944**	655,944
Earnings per share for profit attributable to owners of the Company		
— Basic earnings per share (HK cents)	**9.53**	1.53
— Diluted earnings per share (HK cents)	**9.53**	1.53

(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.

(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 2020 and 2019 equal basic earnings per share as there were no potentially dilutive ordinary shares as at both years end.

13 DIVIDENDS

	2020 **HK$'000**	2019 HK$'000
Dividends attributable to the year		
Proposed final dividend of HK1.96 cents (2019: HK0.46 cent) per ordinary share	**12,850**	3,017
Proposed special dividend of nil (2019: HK0.38 cent) per ordinary share	**–**	2,493
Special dividend of HK0.90 cent (2019: nil) per ordinary share paid	**5,903**	–
	18,753	5,510
Dividends paid during the year		
2019 final and special dividends totalling HK0.84 cent per ordinary share	**5,510**	–
2020 special dividend of HK0.9 cent per ordinary share	**5,903**	–
2018 final and special dividends totalling HK0.79 cent per ordinary share	**–**	5,182
	11,413	5,182

A final dividend of HK1.96 cents per ordinary share amounting to a total of HK$12,850,000 was proposed by the Board of Directors which has to be approved by shareholders in the forthcoming annual general meeting. This proposed final dividend is not reflected as a dividend payable in the consolidated statement of financial position as at 31 December 2020, but will be reflected as an appropriation of share premium for the year ending 31 December 2021.

Together with a special dividend of HK0.9 cent per ordinary share amounting to a total of HK$5,903,000 which was paid to the shareholders in September 2020, the total dividends in respect of the year ended 31 December 2020 amounted to HK$18,753,000 with a dividend payout ratio of 30%.

14 SUBSIDIARIES

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

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/registered capital	Effective interest held as at 2020	2019
Directly held by the Company						
Hung Fook Tong Group Limited	British Virgin Islands 17 January 2014	Investment holding	Limited liability company	US$1	100%	100%
Indirectly held by the Company						
Apace Logistics and Supply Company Limited (ceased business on 31 August 2020)	Hong Kong, 26 April 2017	Logistics and trading	Limited liability company	HK$10,000	60%	60%
Speedy Pro Supply Chain Limited	Hong Kong, 17 December 2020	Logistics and trading	Limited liability company	HK$10,000	60%	–
Hung Fook Tong Holdings Limited	Hong Kong, 6 May 1993	Investment holding	Limited liability company	HK$111,111	100%	100%
Hung Fook Tong Franchise System Management Limited	Hong Kong, 19 November 1992	Wholesaling and retailing of herbal products	Limited liability company	HK$10,000	100%	100%
Hung Fook Tong (Herbal Tea) Limited	Hong Kong, 13 January 1989	Manufacturing and 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 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%

14 SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/registered capital	Effective interest held as at 2020	2019
Indirectly held by the Company (Continued)						
Quality of Life Products Company Limited	Hong Kong, 21 July 1992	Wholesaling of coupons and catering	Limited liability company	HK$10,000	**100%**	100%
Hung Fook Tong Management Institute Limited	Hong Kong, 17 December 2005	Provision of training courses	Limited liability company	HK$1	**100%**	100%
Hong Kong Hung Fook Tong Herbal Tea Holdings Limited	Hong Kong, 24 December 2007	Inactive	Limited liability company	HK$1	**100%**	100%
Hung Fook Hong Health Food (Shenzhen) Company Limited 鴻福行保健食品(深圳)有限公司#	PRC, 3 November 1998	Manufacturing of bottled drinks	Limited liability company	HK$20,100,000	**100%**	100%
Hung Fook Tong (Guangzhou) Trading Company Limited 鴻福堂(廣州)貿易有限公司#	PRC, 9 December 2011	Trading of bottled drinks	Limited liability company	RMB8,500,000	**100%**	100%
Hung Fook Tong Services Limited	Hong Kong, 4 October 1994	Licence holding for Hung Fook Tong (Herbal Tea) Limited and Hung Fook Tong Franchise System Management Limited	Limited liability company	HK$3	**100%**	100%
Gold Work Limited	Hong Kong, 1 April 2010	Investment holding	Limited liability company	HK$10,000	**100%**	100%
Goldmark Plastic Bottle Manufacturing Limited	Hong Kong, 11 October 2002	Investment holding	Limited liability company	HK$100,000	**51%**	51%
Gaoda Plastic Bottle (Dongguan) Company Limited 高達塑膠瓶(東莞)有限公司#	PRC, 3 May 2012	Manufacturing of plastics bottles	Limited liability company	HK$8,000,000	**51%**	51%
Gao Bi Da Plastic Bottle (Kaiping) Co., Ltd 高必達塑膠瓶(開平)有限公司#	PRC, 15 March 2018	Manufacturing of plastics bottles	Limited liability company	RMB10,000,000	**51%**	51%
Hung Fook Tong International Limited	Hong Kong, 20 July 1993	Investment holding	Limited liability company	HK$10,000	**100%**	100%
Hung Fook Tong Herbal Tea (Guangdong) Company Limited 鴻福堂涼茶(廣東)有限公司#	PRC, 13 March 2008	Wholesaling and retailing of herbal products	Limited liability company	RMB13,000,000	**100%**	100%

14 SUBSIDIARIES (Continued)

Name	Country/place and date of incorporation/ establishment	Principal activities	Type of legal status	Issued and paid up/registered capital	Effective interest held as at 2020	2019
Indirectly held by the Company (Continued)						
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%
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 and wholesaling of herbal products and snacks	Limited liability company	RMB130,000,000	**100%**	100%
Handmade Bakery Development Co., Limited 手作烘焙發展有限公司	Hong Kong, 13 July 2018	Retailing of bakery products	Limited liability company	HKD510,000	**75%**	75%

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.

Wholly foreign–owned enterprise established in the PRC.

Non-controlling interests

The total non-controlling interests as at 31 December 2020 are related to Goldmark Plastic Bottle Manufacturing Limited and its wholly-owned subsidiaries, including Gaoda Plastic Bottle (Dongguan) Company Limited and Gao Bi Da Plastic Bottle (Kaiping) Co., Ltd, Apace Logistics and Supply Company Limited, Speedy Pro Supply Chain Limited and Handmade Bakery Development Co., Limited, which the directors consider not material to the Group.

15 INVESTMENTS IN AN ASSOCIATE AND JOINT VENTURES

	As at 31 December 2020 HK$'000	2019 HK$'000
Investments in an associate and joint ventures	**36**	55

	Year ended 31 December 2020 HK$'000	2019 HK$'000
As 1 January	**55**	–
Capital injection	**–**	110
Share of losses of an associate and joint ventures	**(19)**	(55)
As 31 December	**36**	55

Nature of investments in an associate and joint ventures as at 31 December 2020:

Name	Interest held indirectly	Nature of relationship	Place of Incorporation	Principal activities
HomePlus (Hong Kong) Limited ("HomePlus") (Note (c))	10% (2019:33.3%)	Associate (2019: Joint venture)	Hong Kong	Provision of retail and telecommunication services in Hong Kong
Nova FinTech Limited	37.5% (2019:37.5%)	Joint venture (2019:Same)	Hong Kong	Provision of financial technology services in Hong Kong

The associate and joint ventures are currently considered not material to the Group. The summarised financial information for the associate and joint ventures is set out below:

	As at 31 December 2020 HK$'000	2019 HK$'000
Total assets	**39,371**	5,196
Total liabilities	**(44,455)**	(5,022)

	Year ended 31 December 2020 HK$'000	2019 HK$'000
Total profits less losses	**(5,706)**	(137)

Notes:

(a) The Group's associate and joint ventures are unlisted corporate entities whose quoted market prices are not available.

(b) There are no contingent liabilities relating to the Group's investments in the associate and the joint ventures and these entities also had no material contingent liabilities.

(c) During the year ended 31 December 2019, pursuant to the joint venture and shareholders agreement with respect to HomePlus, the Group has acquired 50,000 ordinary shares of HomePlus at HK$50,000 and the Group considered that there was joint control in HomePlus because the unanimous shareholders' approval was request for the significant policy-making process.

During the year ended 31 December 2020, the equity interest in HomePlus has been diluted from 33.3% to 10% due to the issuance of new shares to other investors. Pursuant to the supplemental agreement to the joint venture and shareholders agreement with respect to HomePlus, the term of unanimous shareholders' approval has been changed and the Group no longer has joint control over HomePlus. The management considered that the Group still has significant influence in HomePlus taking into consideration of the Group's representation on the Board of Directors in HomePlus. Accordingly, the investment has been reclassified from joint venture to associate.

16 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 2020								
Opening net book amount	174,439	13,698	22,873	5,060	83,923	1,643	7,512	309,148
Additions	–	9,172	10,501	411	4,723	1,608	2,130	28,545
Disposals (Note 33(b))	–	–	–	–	(240)	–	–	(240)
Transfer	–	(1,185)	–	11	567	23	584	–
Depreciation (Note 8)	(6,031)	–	(10,803)	(1,020)	(13,746)	(673)	(2,471)	(34,744)
Exchange difference	3,732	738	(89)	25	3,141	15	77	7,639
Closing net book amount	172,140	22,423	22,482	4,487	78,368	2,616	7,832	310,348
At 31 December 2020								
Cost	204,095	22,423	114,468	15,312	165,161	5,520	28,982	555,961
Accumulated depreciation and impairment	(31,955)	–	(91,986)	(10,825)	(86,793)	(2,904)	(21,150)	(245,613)
Net book amount	172,140	22,423	22,482	4,487	78,368	2,616	7,832	310,348

	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 2019								
Opening net book amount	117,943	83,447	23,268	4,942	52,105	1,455	5,402	288,562
Acquisition of a subsidiary	–	–	292	120	293	–	13	718
Additions	4,766	34,486	7,973	436	941	693	3,655	52,950
Disposals (Note 33(b))	–	–	(139)	–	(1,350)	–	(63)	(1,552)
Transfer	57,669	(102,749)	–	475	43,874	–	731	–
Write-off (Note 8)	–	–	(2)	–	(144)	–	(19)	(165)
Depreciation (Note 8)	(5,951)	–	(8,521)	(913)	(11,481)	(505)	(2,192)	(29,563)
Exchange difference	12	(1,486)	2	–	(315)	–	(15)	(1,802)
Closing net book amount	174,439	13,698	22,873	5,060	83,923	1,643	7,512	309,148
At 31 December 2019								
Cost	200,137	13,698	106,366	14,863	166,636	3,957	26,095	531,752
Accumulated depreciation and impairment	(25,698)	–	(83,493)	(9,803)	(82,713)	(2,314)	(18,583)	(222,604)
Net book amount	174,439	13,698	22,873	5,060	83,923	1,643	7,512	309,148

Depreciation of HK$11,730,000 (2019: HK$7,139,000) has been charged in 'cost of sales', HK$23,014,000 (2019: HK$22,422,000) in 'administrative and operating expenses' and HK$nil (2019: HK$2,000) in 'selling and distribution costs'.

17 LEASES

(a) Right-of-use assets

	Leasehold land and land use rights HK$'000	Store properties HK$'000	Total HK$'000
At 1 January 2019	56,059	104,845	160,904
Inception of lease contracts	647	127,005	127,652
Depreciation (Note 8)	(1,614)	(81,391)	(83,005)
Modification of lease contracts	–	(1,060)	(1,060)
Exchange difference	(475)	–	(475)
At 31 December 2019	54,617	149,399	204,016
At 1 January 2020	**54,617**	**149,399**	**204,016**
Inception of lease contracts	**–**	**132,137**	**132,137**
Depreciation (Note 8)	**(1,633)**	**(92,755)**	**(94,388)**
Modification of lease contracts	**–**	**(29,724)**	**(29,724)**
Exchange difference	**1,530**	**–**	**1,530**
At 31 December 2020	**54,514**	**159,057**	**213,571**

The Group obtains right to control the use of various retail outlets for a period of time through lease arrangements. Lease arrangement are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from 1 to 3 years.

The Group also obtained the leasehold land and land use rights through lease contracts with local governments in Hong Kong and the PRC with 50 years term.

Some of the property leases which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased stores. Variable lease terms are used to link lease payments to store cash flows and reduce fixed cost. The Group's lease expenses (see note 8) are primarily for short-term leases and low-value leases; expenses relating to variable lease payments are relatively insignificant. The Group expects this pattern to remain stable in future years. The variable lease payments depend on sales and consequently on the overall economic development over the next few years. Taking into account the development of sales expected over the next few years, variable lease payments are expected to continue to present a similar proportion of store sales in future years.

(b) Lease liabilities

	2020 HK$'000	2019 HK$'000
At 1 January	**153,457**	108,446
Inception of lease contracts	**131,637**	126,005
Interest expenses on lease liabilities (Note 10)	**4,761**	3,829
Payment for lease liabilities (including interest)	**(84,349)**	(83,763)
Modification of lease contracts	**(29,724)**	(1,060)
At 31 December	**175,782**	153,457

17 LEASES (Continued)

(b) Lease liabilities (Continued)

	2020 HK$'000	2019 HK$'000
Amount due for settlement within 12 months (shown under current liabilities)	**94,705**	82,333
Amount due for settlement after 12 months	**81,077**	71,124
As at 31 December	**175,782**	153,457

The maturity analysis of lease liabilities is disclosed in note 3.1(c).

(c) Short-term leases, low-value leases and not yet commenced lease

As at 31 December 2020, the total future lease payments for short-term leases and low value leases amounted to HK$89,000 (2019: HK$317,000). As at 31 December 2020, leases committed but not yet commenced are relatively insignificant (2019: same).

18 INVENTORIES

	As at 31 December	
	2020 HK$'000	2019 HK$'000
Raw materials	**16,545**	15,325
Work in process	**3,153**	4,435
Finished goods	**26,769**	24,426
	46,467	44,186
Less: Provision for obsolete inventories	**(420)**	(418)
	46,047	43,768

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

	2020 HK$'000	2019 HK$'000
At 1 January	**418**	405
Provision for obsolete inventories (Note 8, 33(a))	**2**	342
Written off of provision for obsolete inventories	**–**	(329)
At 31 December	**420**	418

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to HK$194,255,000 (2019: HK$217,259,000).

19 FINANCIAL INSTRUMENTS BY CATEGORIES

The Group holds the following financial instruments:

	Note	As at 31 December 2020 HK$'000	2019 HK$'000
Financial assets			
Financial assets at amortised cost			
— Trade receivables	20	**42,438**	48,220
— Deposits and other receivables (excluding prepayments and value-added tax recoverable)		**40,379**	44,103
— Amount due from a related company	32(a)	**690**	690
— Cash and cash equivalents	22	**134,905**	95,353
Financial liabilities			
Liabilities at amortised cost			
— Trade payables	27	**29,078**	34,720
— Accruals and other payables (excluding non-financial liabilities and accruals for employee benefit expenses)		**42,641**	41,712
— Bank borrowings	31	**41,599**	93,611
— Lease liabilities	17	**175,782**	153,457

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.

20 TRADE RECEIVABLES

	As at 31 December 2020 HK$'000	2019 HK$'000
Trade receivables from third parties	**44,699**	50,671
Trade receivables from an associate (Note 32(a))	**980**	–
	45,679	50,671
Less: Provision for impairment of trade receivables	**(3,241)**	(2,451)
Trade receivables, net	**42,438**	48,220

20 TRADE RECEIVABLES (Continued)

The Group's credit terms granted to wholesale customers generally ranged from 30 to 105 days (2019: 30 to 105 days). As at 31 December 2020 and 2019, the aging analysis of the trade receivables, based on invoice date, is as follows:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Less than 30 days	**17,156**	15,717
31-90 days	**21,561**	29,117
Over 90 days	**3,721**	3,386
	42,438	48,220

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. The trade receivables have been grouped based on the business segments, geographical locations, credit risk characteristics and the days past due to provide the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for separate provision for impairment allowance.

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

	2020	2019
	HK$'000	HK$'000
At 1 January	**2,451**	2,310
Provision for impairment of trade receivables (Note 8)	**790**	1,875
Receivables written off during the year as uncollectible	**–**	(1,734)
At 31 December	**3,241**	2,451

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	
	2020	2019
	HK$'000	HK$'000
HK$	**40,798**	42,404
RMB	**1,640**	5,816
	42,438	48,220

21 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Non-current portion		
Prepayments for property, plant and equipment	**13,452**	9,127
Rental and other deposits	**23,126**	19,359
Total	**36,578**	28,486
Current portion		
Prepayments	**5,375**	8,666
Rental and other deposits	**15,155**	18,237
Value-added tax recoverable	**9,597**	17,396
Amount due from a non-controlling interest (Note 32(a))	**–**	1,000
Amount due from an investor of an associate	**1,654**	4,743
Other receivables	**444**	764
Total	**32,225**	50,806

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
HK$	**38,757**	40,516
RMB	**1,622**	3,587
	40,379	44,103

22 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Cash at bank and cash in hand	**134,905**	95,353

Notes:

(a) The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
HK$	**108,131**	77,808
USD	**977**	535
RMB	**25,337**	16,968
Others	**460**	42
	134,905	95,353

22 CASH AND CASH EQUIVALENTS (Continued)

Notes: (Continued)

(b) **Significant restrictions**

Cash and cash equivalents of HK$17,507,000 (2019: HK$9,609,000) 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.

23 SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares HK$'000
Authorised:		
At 1 January 2019, 31 December 2019 and 31 December 2020	1,000,000,000	10,000

	Number of shares	Nominal value of ordinary shares HK$'000
Issued and fully paid:		
At 1 January 2019, 31 December 2019 and 31 December 2020	655,944,000	6,559

24 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.

24 RESERVES (Continued)

Statutory surplus reserve (Continued)

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 2020, retained earnings comprised statutory reserves fund amounting to HK$1,380,000 (2019: HK$1,271,000).

25 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 during the year ended 31 December 2020 (2019: nil), and there was no outstanding share option as at 31 December 2020 (2019: nil).

26 DEFERRED INCOME TAX

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Deferred income tax assets		
— to be recovered after more than 12 months	**9,377**	12,572
— to be recovered within 12 months	**6,465**	6,086
	15,842	18,658
Deferred income tax liabilities		
— to be recovered after more than 12 months	**10,408**	11,157

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	
	2020	2019
	HK$'000	HK$'000
Deferred income tax assets – net	**14,891**	7,594
Deferred income tax liabilities – net	**9,457**	93

26 DEFERRED INCOME TAX (Continued)

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

	HK$'000
At 1 January 2019	11,947
Charged to profit or loss (Note 11)	(4,330)
Exchange difference	(116)
At 31 December 2019	7,501
At 1 January 2020	**7,501**
Charged to profit or loss (Note 11)	**(2,445)**
Exchange difference	**378**
At 31 December 2020	**5,434**

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$'000	Right-of-use assets HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2019	4,422	595	17,754	22,771
Credited/(charged) to profit or loss	671	211	(4,879)	(3,997)
Exchange difference	–	–	(116)	(116)
At 31 December 2019	5,093	806	12,759	18,658
At 1 January 2020	**5,093**	**806**	**12,759**	**18,658**
Credited/(charged) to profit or loss	**247**	**2,082**	**(5,523)**	**(3,194)**
Exchange difference	**–**	**–**	**378**	**378**
At 31 December 2020	**5,340**	**2,888**	**7,614**	**15,842**

26 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities

	Accumulated tax depreciation and others HK$'000
At 1 January 2019	(10,824)
Charged to profit or loss	(333)
At 31 December 2019	(11,157)
At 1 January 2020	**(11,157)**
Credited to profit or loss	**749**
At 31 December 2020	**(10,408)**

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$7,062,000 (2019: HK$8,999,000) as at 31 December 2020 in respect of tax losses in Hong Kong and in the PRC.

The Group has unrecognised tax losses of HK$8,351,000 (2019: HK$6,386,000) as at 31 December 2020, to carry forward against future profit in Hong Kong. These tax losses afore-mentioned are subject to final approval by the Inland Revenue Department in Hong Kong and can be carried forward indefinitely.

The Group has unrecognised tax losses of HK$22,735,000 (2019: HK$31,779,000) as at 31 December 2020, to carry forward against future profit in the PRC. These tax losses expire in the following years:

	As at 31 December	
	2020 HK$'000	2019 HK$'000
Expiry in year:		
2020	**–**	4,386
2021	**–**	196
2022	**366**	391
2023	**10,348**	12,870
2024	**10,140**	13,936
2025	**1,881**	–
	22,735	31,779

As at 31 December 2020 management is of the view that undistributed earnings of certain subsidiaries in the PRC totalling HK$2,199,000 (2019: HK$453,000), are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of HK$110,000 (2019: HK$22,700) have not been recognised as at 31 December 2020, for the withholding tax that would be payable on the undistributed profits of subsidiaries in the PRC.

The Group is able to control the timing of reversal of the temporary differences and the temporary differences are not expected to be reversed in the foreseeable future.

27 TRADE PAYABLES

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Trade payables	**29,078**	34,720

As at 31 December 2020, the ageing analysis of the trade payables, based on invoice date, is as follows:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
0 to 30 days	**19,232**	17,426
31 to 60 days	**8,069**	9,398
61 to 90 days	**591**	4,563
Over 90 days	**1,186**	3,333
	29,078	34,720

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
HK$	**20,745**	20,019
RMB	**8,333**	14,701
	29,078	34,720

28 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Accruals for employee benefit expenses	**24,886**	17,106
Accruals for marketing and promotional expenses	**1,173**	1,959
Refund liabilities for sales rebate	**4,149**	3,216
Rental and related expenses payable	**2,554**	3,479
Office and utilities expenses payable	**1,834**	2,869
Deferred revenue	**3,011**	2,693
Consideration payable for property, plant and equipment acquired	**9,659**	8,359
Accruals for transportation and delivery charges	**2,780**	4,639
Accruals for audit fee	**2,923**	3,106
Other accruals and other payables	**21,718**	17,301
	74,687	64,727

28 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	
	2020 HK$'000	2019 HK$'000
HK$	53,163	48,412
RMB	21,524	16,315
	74,687	64,727

29 PROVISION FOR REINSTATEMENT COSTS

	As at 31 December	
	2020 HK$'000	2019 HK$'000
Non-current		
Provision for reinstatement costs	5,268	4,495
Current		
Provision for reinstatement costs	2,437	2,859
	7,705	7,354

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

	2020 HK$'000	2019 HK$'000
At 1 January	7,354	7,602
Additional provision during the year	500	1,030
Utilisation	(149)	(1,278)
At 31 December	7,705	7,354

30 RECEIPTS IN ADVANCE

	As at 31 December	
	2020 HK$'000	2019 HK$'000
Receipts in advance	157,298	162,044

30 RECEIPTS IN ADVANCE (Continued)

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

	2020 HK$'000	2019 HK$'000
At 1 January	**162,044**	151,057
Receipts from sales of pre-paid coupons and credits during the year	**345,000**	351,776
Revenue recognised upon the redemption of products by customers	**(350,104)**	(340,682)
Exchange differences	**358**	(107)
At 31 December	**157,298**	162,044

31 BANK BORROWINGS

	As at 31 December	
	2020 HK$'000	2019 HK$'000
Unsecured bank borrowings:		
Portion due for repayment within 1 year	**33,386**	34,732
Portion due for repayment after 1 year but within 5 years without repayment on demand clause	**8,213**	58,879
	41,599	93,611

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

	As at 31 December	
	2020 HK$'000	2019 HK$'000
Unsecured bank borrowings:		
Within 1 year	**11,778**	34,732
Between 1 and 2 years	**12,008**	25,496
Between 2 and 5 years	**17,813**	33,383
	41,599	93,611

The carrying amounts of bank borrowings approximate their fair values.

The weighted average interest rate is 3.7% as at 31 December 2020 (2019: 3.1%).

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

32 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 60.76% (2019: 60.76%) of the Company's shares as at 31 December 2020. The remaining 39.24% (2019: 39.24%) 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:

— Aqua Pure Distilled Water Company Limited

— HomePlus (Hong Kong) Limited

(a) Amounts due from related parties

The amounts due from related parties are unsecured, interest-free and repayable on demand.

The Group had the following material balance due from the related parties:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Amount due from a related company	**690**	690
Amount due from a non-controlling interest (Note 21)	**–**	1,000
Trade receivables due from an associate (Note 20)	**980**	–

The amounts due from the related parties are denominated in HK$.

(b) Transactions with an associate

The following is a summary of transactions with an associate, which were carried out in the normal course of the Group's business at price and terms mutually agreed by the respective parties:

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Sales of goods	**251**	–
Management service income	**627**	–
Management fee expense	**844**	–

32 RELATED PARTIES BALANCES AND TRANSACTIONS (Continued)

(c) 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:

	Year ended 2020 HK$'000	2019 HK$'000
Fees	**765**	756
Salaries, allowances and benefits in kind	**16,555**	16,143
Pension costs	**180**	199
	17,500	17,098

33 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 2020 HK$'000	2019 HK$'000
Profit before income tax		**66,776**	13,670
Adjustments for:			
Interest income		**(66)**	(81)
Interest expenses		**7,256**	6,208
Losses/(gains) on disposal of property, plant and equipment	33(b)	**94**	(509)
Depreciation of property, plant and equipment	16	**34,744**	29,563
Depreciation of right-of-use assets	17	**94,388**	83,005
Provision for reinstatement costs		**138**	54
Provision for obsolete inventories	18	**2**	342
Write-off of property, plant and equipment		**–**	165
Share of losses of an associate and joint ventures accounted for using the equity method		**19**	55
Provision for impairment of financial assets		**2,415**	1,875
		205,766	134,347
Changes in working capital:			
Increase in inventories		**(840)**	(11,168)
Decrease/(increase) in trade receivables		**5,118**	(6,739)
Decrease/(increase) in prepayments, deposits and other receivables		**14,623**	(5,960)
Decrease in trade payables		**(6,174)**	(5,730)
Increase in accruals and other payables and receipts in advance		**3,486**	1,664
Cash generated from operations		**221,979**	106,414

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Disposal of property, plant and equipment

	Note	Year ended 31 December 2020 HK$'000	2019 HK$'000
Property, plant and equipment			
Net book value	16	**240**	1,552
(Losses)/gains on disposal of property, plant and equipment	7	**(94)**	509
Proceeds from disposal of property, plant and equipment		**146**	2,061

(c) Net debt reconciliation

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

Net debt	Year ended 31 December 2020 HK$'000	2019 HK$'000
Cash and cash equivalents	**134,905**	95,353
Borrowings – repayable within one year	**(33,386)**	(34,732)
Borrowings – repayable after one year	**(8,213)**	(58,879)
Lease liabilities	**(175,782)**	(153,457)
Net debt	**(82,476)**	(151,715)
Cash and liquid investments	**134,905**	95,353
Gross debt – variable interest rates	**(41,599)**	(93,611)
Gross debt – fixed interest rates	**(175,782)**	(153,457)
Net debt	**(82,476)**	(151,715)

	Other assets	Liabilities from financing activities			
	Cash HK$'000	Borrowing due within 1 year HK$'000	Borrowing due after 1 year HK$'000	Lease liabilities HK$'000	Total HK$'000
Net cash/(debt) as at 1 January 2019	128,391	(35,477)	(58,615)	(108,446)	(74,147)
Non-cash movement on leases – net	–	–	–	(124,945)	(124,945)
Cash flows	(31,340)	745	(264)	79,934	49,075
Foreign exchange adjustments	(1,698)	–	–	–	(1,698)
Net cash/(debt) as at 31 December 2019	**95,353**	**(34,732)**	**(58,879)**	**(153,457)**	**(151,715)**
Non-cash movement on leases – net	**–**	**–**	**–**	**(101,913)**	**(101,913)**
Reclassification	**–**	**(21,608)**	**21,608**	**–**	**–**
Cash flows	**38,173**	**22,954**	**29,058**	**79,588**	**169,773**
Foreign exchange adjustments	**1,379**	**–**	**–**	**–**	**1,379**
Net cash/(debt) as at 31 December 2020	**134,905**	**(33,386)**	**(8,213)**	**(175,782)**	**(82,476)**

34 CONTINGENT LIABILITIES

Taclon Industries Limited, a wholly-owned subsidiary of the Company, has several pending litigations and claims with its former employees which the directors consider an outflow of resources is not probable.

35 COMMITMENTS

Capital commitments

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

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
Contracted but not provided for		
Property, plant and equipment	**8,967**	15,911
Equity investment (Note)	**5,000**	–

Note: As at 31 December 2020, the Group has entered into a joint venture and shareholders agreement with other investors for the investment in a Hong Kong incorporated company which engaged in the provision of e-commerce business in Hong Kong. The Group shall subscribe for 10,000,000 ordinary shares in the investee at a cash consideration of HK$10,000,000 with initial subscription being 5,000,000 shares at HK$5,000,000. However, the Group is entitled to elect to subscribe less than 10,000,000 shares and in which case, the Group's shareholding in the investee will be diluted accordingly.

36 BUSINESS COMBINATION

During the year ended 31 December 2019, the Group acquired 75% of equity interests in Handmade Bakery Development Co., Limited, a company engaged in retailing of bakery products in Hong Kong. The acquisition will complement the business portfolio of the Group. The cash consideration for the acquisition was HK$500,000, which approximated to the aggregate amount of fair value of net assets acquired and the non-controlling interest recognised. The payment of acquisition, net of cash acquired, amounted to HK$400,000. No goodwill was recognised in this business combination.

The revenue and the results contributed by the acquired subsidiary for the period since acquisition date was insignificant to the Group. The Group's revenue and results for the year would not be materially different if this acquisition had occurred on 1 January 2019.

The related transaction costs of the business combination was not material to the Group's consolidated financial statements.

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of Financial Position of the Company

	As at 31 December	
	2020	2019
	HK$'000	HK$'000
ASSETS		
Non-current assets		
Investment in a subsidiary	**31,927**	31,927
Amounts due from subsidiaries	**298,774**	192,204
	330,701	224,131
Current assets		
Prepayments, deposits and other receivables	**232**	240
Cash and cash equivalents	**630**	319
	862	559
Total assets	**331,563**	224,690
EQUITY		
Share capital	**6,559**	6,559
Reserves (Note 37(a))	**323,818**	217,260
Total equity	**330,377**	223,819
LIABILITIES		
Current liabilities		
Accruals and other payables	**1,186**	871
Total equity and liabilities	**331,563**	224,690

The statement of financial position of the Company was approved by the Board of Directors on 29 March 2021 and were signed on its behalf.

Tse Po Tat
Director

Wong Pui Chu
Director

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

Note:

(a) Reserve movement of the Company

	Share premium HK$'000	Capital reserve HK$'000	Share based compensation reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
At 31 December 2018 and 1 January 2019	214,999	107,992	5,421	(111,380)	217,032
Total comprehensive income					
Profit for the year	–	–	–	5,410	5,410
Transaction with owners					
2018 final and special dividends	–	–	–	(5,182)	(5,182)
At 31 December 2019	214,999	107,992	5,421	(111,152)	217,260
At 31 December 2019 and 1 January 2020	214,999	107,992	5,421	(111,152)	217,260
Total comprehensive income					
Profit for the year	–	–	–	117,971	117,971
Transaction with owners					
2019 final and special dividends	(5,510)	–	–	–	(5,510)
2020 special dividend	–	–	–	(5,903)	(5,903)
At 31 December 2020	209,489	107,992	5,421	916	323,818

38 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of the Directors is set out below respectively:

For the year ended 31 December 2020

	Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiaries undertaking:				
	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefit-in-kind HK$'000	Discretionary bonuses HK$'000	Employer's Contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive directors					
Ms. Wong Pui Chu	–	1,936	363	18	2,317
Mr. Tse Po Tat	–	2,323	435	–	2,758
Dr. Szeto Wing Fu	–	2,640	495	18	3,153
	–	6,899	1,293	36	8,228
Independent non-executive directors					
Mr. Kiu Wai Ming	255	–	–	–	255
Prof. Sin Yat Ming	255	–	–	–	255
Mr. Andrew Look	255	–	–	–	255
	765	–	–	–	765

For the year ended 31 December 2019

	Emoluments paid or receivable in respect of a person's services as a Director, whether of the Company or its subsidiaries undertaking:				
	Fees HK$'000	Basic salaries, housing allowances, other allowances and benefit-in-kind HK$'000	Discretionary bonuses HK$'000	Employer's Contribution of a retirement benefit scheme HK$'000	Total HK$'000
Executive directors					
Ms. Wong Pui Chu	–	1,901	222	18	2,141
Mr. Tse Po Tat	–	2,256	243	5	2,504
Dr. Szeto Wing Fu	–	2,564	276	18	2,858
	–	6,721	741	41	7,503
Independent non-executive directors					
Mr. Kiu Wai Ming	252	–	–	–	252
Prof. Sin Yat Ming	252	–	–	–	252
Mr. Andrew Look	252	–	–	–	252
	756	–	–	–	756

There was no arrangement during the years ended 31 December 2020 and 2019 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.

38 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(b) Directors' termination benefits

None of the Directors received any termination benefits during the years ended 31 December 2020 and 2019.

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

During the years ended 31 December 2020 and 2019, 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 2020 and 2019, 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 2020 and 2019 or at any time during the years ended 31 December 2020 and 2019.

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				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**702,473**	775,789	783,383	729,776	700,744
Profit before income tax	**66,776**	13,670	9,857	10,520	8,176
Income tax (expense)/credit	**(5,463)**	(3,268)	2,888	(149)	4,628
Profit for the year from continuing operations	**61,313**	10,402	12,745	10,371	12,804
Loss for the year from discontinued operation	**-**	-	(4,437)	(2,369)	(4,161)
Profit for the year	**61,313**	10,402	8,308	8,002	8,643
Profit/(loss) attributable to:					
Owners/equity holders of the Company	**62,530**	10,012	9,374	8,106	8,961
Non-controlling interests	**(1,217)**	390	(1,066)	(104)	(318)
	61,313	10,402	8,308	8,002	8,643

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Non-current assets	**575,424**	549,299	384,330	331,923	301,900
Current assets	**259,103**	239,823	252,987	231,771	251,838
Total assets	**834,527**	789,122	637,317	563,694	553,738
Equity and liabilities					
Total equity	**334,608**	271,767	271,694	267,251	256,982
Non-current liabilities	**104,015**	134,591	62,531	37,094	48,841
Current liabilities	**395,904**	382,764	303,092	259,349	247,915
Total liabilities	**499,919**	517,355	365,623	296,443	296,756
Total equity and liabilities	**834,527**	789,122	637,317	563,694	553,738

HUNG FOOK TONG

Hung Fook Tong Group Holdings Limited

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