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)

(Stock Code: 1446)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

HIGHLIGHTS

- Revenue for the year ended 31 December 2015 ("2015") reached HK$723.6 million, which was similar to that of HK$722.1 million for the year ended 31 December 2014 ("2014").

  — Revenue from retail business increased by 2.3%, to HK$491.8 million, with our retail network comprising 133 retail shops as at 31 December 2015.

  — Revenue from wholesale business decreased by 3.9%, to HK$231.8 million, with our distribution network now covering 46 cities in 15 provinces, and number of distributors in Mainland China maintained at 71.

- Gross profit for 2015 increased to HK$438.9 million by 3.5% from 2014, and gross profit margin for 2015 increased by 2.0 percentage points to 60.7% as compared to 58.7% in 2014.

- Profit attributable to owners of the Company for 2015 was HK$8.7 million.

- Earnings per share for 2015 was HK1.33 cents.

- Proposed final dividend and special dividend of HK0.40 cent and HK0.36 cent per ordinary share, respectively (totalling HK0.76 cent per ordinary share).

RESULTS

The board of directors (the "Board") of Hung Fook Tong Group Holdings Limited (the "Company") hereby announces the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 together with comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

		Year ended 31 December	
		2015	2014
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**723,578**	722,072
Cost of sales	*6*	**(284,651)**	(298,092)
Gross profit		**438,927**	423,980
Other income	*5*	**1,566**	1,064
Other (losses)/gains, net	*5*	**(2,359)**	869
Selling and distribution costs	*6*	**(70,670)**	(73,076)
Administrative expenses	*6*	**(354,755)**	(382,459)
Operating profit/(loss)		**12,709**	(29,622)
Finance income	*7*	**342**	1,032
Finance costs	*7*	**(2,416)**	(5,429)
Finance costs, net	*7*	**(2,074)**	(4,397)
Profit/(loss) before income tax		**10,635**	(34,019)
Income tax expense	*8*	**(1,304)**	(4,641)
Profit/(loss) for the year		**9,331**	(38,660)
Profit/(loss) attributable to:			
Owners of the Company		**8,707**	(38,345)
Non-controlling interests		**624**	(315)
		9,331	(38,660)

	Note	Year ended 31 December 2015 HK$'000	2014 HK$'000
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
— Currency translation differences		**(2,402)**	(1,105)
— Release of exchange reserve upon disposal of a subsidiary		**–**	(338)
Other comprehensive loss, net of tax		**(2,402)**	(1,443)
Total comprehensive income/(loss) for the year		**6,929**	(40,103)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**6,899**	(39,759)
Non-controlling interests		**30**	(344)
		6,929	(40,103)
Earnings/(loss) per share attributable to owners of the Company			
— Basic and diluted (HK cents per share)	*9*	**1.33**	(6.82)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

		As at 31 December	
		2015	2014
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Leasehold land		**31,965**	32,987
Property, plant and equipment		**242,102**	252,057
Investment property		**800**	829
Prepayments and deposits		**19,764**	29,683
Deferred income tax assets		**4,290**	3,905
		298,921	319,461
Current assets			
Inventories		**30,102**	36,688
Trade receivables	*11*	**64,320**	55,068
Prepayments, deposits and other receivables		**29,458**	24,620
Amounts due from related companies		**822**	1,033
Tax recoverable		**4,084**	6,600
Pledged bank deposits		**15,007**	24,326
Bank deposits with original maturity over 3 months		**4,097**	10,030
Cash and cash equivalents		**127,410**	87,685
		275,300	246,050
Total assets		**574,221**	565,511
Equity			
Equity attributable to owners of the Company			
Share capital	*12*	**6,559**	6,557
Share premium	*12*	**214,999**	214,650
Reserves		**34,427**	28,066
		255,985	249,273
Non-controlling interests		**2,821**	4,310
Total equity		**258,806**	253,583

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

The Company has listed its shares on the Stock Exchange of Hong Kong Limited on 4 July 2014.

These financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated and have been approved for issue by the Board of Directors on 24 March 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The following standards, amendments and interpretations to existing standards and annual improvements have been adopted by the Group for the first time for the financial year beginning from 1 January 2015:

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

The adoption of these new and revised standards, amendments and interpretations to existing standards does not have significant impact to the Group's results of operation and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

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

		Effective for annual periods beginning on or after
Annual Improvements Project 2014	Annual Improvements 2012–2014 Cycle	1 January 2016
HKAS 1 (Amendment)	Disclosure Initiative	1 January 2016
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants	1 January 2016
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Lease	1 January 2019

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

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

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a customer perspective and assess the performance of the operating segments based on the segment assets, segment revenue and segment results for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as these consolidated financial statements.

Management has identified three reportable segments based on the Group's business model, namely the (1) Hong Kong Retail; (2) PRC Retail and (3) Wholesale.

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

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

Geographically, management considers the retail, wholesale, distribution of bottled drinks, other herbal products, soups and snacks are mainly located in Hong Kong and the PRC, which the revenue and segment results are determined by the geographical location in which the customer is operated. The assets are determined based on where the assets are located. Information relating to segment liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker.

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

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

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

3 **SEGMENT INFORMATION (CONTINUED)**

	Year ended 31 December 2014			
	Hong Kong Retail	PRC Retail	Wholesale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	466,694	20,009	249,561	736,264
Less: Inter-segment revenue	(5,821)	–	(8,371)	(14,192)
Revenue from external customers	460,873	20,009	241,190	722,072
Segment results	43,321	(7,479)	7,952	43,794
Corporate expenses				(49,298)
Listing-related expenses				(18,590)
Share based compensation expenses				(5,528)
Finance costs, net				(4,397)
Loss before income tax				(34,019)
Income tax expense				(4,641)
Loss for the year				(38,660)
Other segment items:				
Capital expenditure	246,590	1,688	20,456	268,734
Depreciation and amortisation	13,099	2,066	9,697	24,862
Interest income	592	1	439	1,032

The segment assets as at 31 December 2015 and 2014 are as follows:

	Hong Kong Retail	**PRC Retail**	**Wholesale**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2015					
Segment assets	**370,621**	**10,475**	**174,580**	**(3,453)**	**552,223**
Amounts due from related companies					**822**
Tax recoverable					**4,084**
Deferred income tax assets					**4,290**
Corporate assets					**12,802**
Total assets					**574,221**
As at 31 December 2014					
Segment assets	354,335	21,578	171,998	(4,183)	543,728
Amounts due from related companies					1,033
Tax recoverable					6,600
Deferred income tax assets					3,905
Corporate assets					10,245
Total assets					565,511

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

3 SEGMENT INFORMATION (CONTINUED)

The Company is domiciled in the Cayman Islands while the Group operates its business primarily in Hong Kong and in the PRC. For the year ended 31 December 2015, no revenue was generated from the Cayman Islands and no assets were located in the Cayman Islands (2014: Nil).

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

	Year ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Hong Kong	**602,865**	592,717
The PRC	**103,641**	111,564
Overseas countries	**17,072**	17,791
	723,578	722,072

There is no single external customer contributing more than 10% to the Group's revenue for the years ended 31 December 2015 and 2014.

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

	As at 31 December	
	2015	2014
	HK$'000	*HK$'000*
Hong Kong	**439,346**	432,579
The PRC	**112,877**	111,149
	552,223	543,728

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

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

4 REVENUE

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

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

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

Other income

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

Other (losses)/gains, net

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

6 EXPENSES BY NATURE

	Year ended 31 December	
	2015	2014
	HK$'000	*HK$'000*
Cost of inventories sold	**212,123**	239,447
Operating lease rental in respect of retail outlets		
— Minimum rental	**93,704**	86,429
— Contingent rental	**386**	1,140
Operating lease rental in respect of storage spaces and office premises	**19,917**	17,836
Advertising and promotional expenditure	**26,825**	33,575
Amortisation of leasehold land	**1,022**	713
Depreciation of property, plant and equipment	**33,195**	24,120
Depreciation of investment property	**29**	29
Employee benefit expenses (including directors' emoluments)	**215,459**	214,011
Provision for obsolete inventories	**47**	386
Reversal of provision for impairment on trade receivables	**(4)**	(12)
Auditors' remuneration		
— Audit services	**2,600**	2,480
— Non-audit services	**178**	217
Listing-related expenses	**–**	18,590

7 FINANCE COSTS, NET

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

8 INCOME TAX EXPENSE

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2015 (2014: 16.5%) on the estimated assessable profit for the year.

PRC Enterprise income tax

The companies now comprising the Group incorporated in the PRC are subject to Enterprise Income Tax ("EIT") in accordance with the Law of the PRC on Enterprise Income Tax (the "EIT Law"). Under the EIT Law, the income tax rate applicable to the subsidiaries now comprising the Group is 25% (2014: 25%).

The amount of income tax expense represents:

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

9 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

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

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

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has share options which may result in dilutive potential ordinary shares. Its calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted earnings/(loss) per share for the year ended 31 December 2015 and 2014 equal basic earnings/(loss) per share as the exercise of the outstanding share options would be anti-dilutive.

9 EARNINGS/(LOSS) PER SHARE (CONTINUED)

(c) Adjusted

During the year ended 31 December 2014, the Group incurred listing-related expenses and share based compensation expenses related to pre-IPO share options scheme. Management is of the opinion that these expenses are non-recurring and, in order to enable an investor to better understand the Group's results, it is meaningful to present the following reconciliation of earnings/(loss) per share based on earnings/(loss) attributable to owners of the Company excluding listing-related expenses and share based compensation expenses related to pre-IPO share options scheme.

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

10 DIVIDENDS

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

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

11 TRADE RECEIVABLES

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

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

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

As at 31 December 2015, trade receivables of HK$28,096,000 (2014: HK$19,111,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables, based on due date, is as follows:

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

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

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

11 TRADE RECEIVABLES (CONTINUED)

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

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

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The Group does not hold any collateral as security.

12 SHARE CAPITAL AND SHARE PREMIUM

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

	Number of shares	**Nominal value of Ordinary shares**	**Share premium**
		HK$	*HK$*
Issued and fully paid:			
At 10 January 2014 (date of incorporation)	1	1	–
Shares issued pursuant to the Reorganisation	9,999	9,999	–
Subdivision of shares	990,000	–	–
Shares issued pursuant to the Capitalisation Issue	473,000,000	4,730,000	(4,730,000)
Shares issued pursuant to the Global Offering	181,700,000	1,817,000	234,393,000
Share issuance costs	–	–	(15,013,179)
At 31 December 2014 and 1 January 2015	655,700,000	6,557,000	214,649,821
Pre-IPO Share Option Scheme — Exercise of share options	244,000	2,440	348,314
At 31 December 2015	655,944,000	6,559,440	214,998,135

13 TRADE AND BILL PAYABLES

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Business Segment Analysis

Retail

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

Hong Kong

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

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

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

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

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

Mainland China

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

Wholesale

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

Mainland China

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

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

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

Hong Kong

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

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

Production Facilities

The Group's production facilities are essential for meeting strict internal safety requirements and tackling key markets. Correspondingly, the Tai Po plant obtained ISO22000 accreditation in the first quarter of 2016, having only commenced operation at the end of 2014. The achievement highlights the Group's success in food safety management and commitment to deliver products that meet the highest safety standards. With regards to tackling key markets specifically in Mainland China, the Suzhou plant commenced operation in April 2015 and will allow the Group to more effectively penetrate the eastern and northern reaches of the country in the coming years.

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

Prospects

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

Retail

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

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

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

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

Wholesale

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

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

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

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

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

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

Conclusion

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

FINANCIAL OVERVIEW

Revenue

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Staff Costs

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

Rental Expenses

For the year ended 31 December 2015, the Group's rental expenses in relation to its retail shops amounted to HK$94.1 million, representing an increase of 7.4% from HK$87.6 million in 2014. The increase was primarily due to new shops leased during the year and the increase in rent upon renewal of leases. Rental expenses-to-retail-revenue ratio (Hong Kong and Mainland China) rose to 19.1%, as compared to 18.2% in 2014. The increase was mainly attributed to the fact that it took time for the new shops to achieve the target or potential sales level.

Advertising and Promotion Expenses

For the year ended 31 December 2015, the Group's advertising and promotion expenses amounted to HK$26.8 million, representing a decrease of 20.2% from HK$33.6 million in 2014. This accounted for 3.7% and 4.7% respectively in percentage to revenue in 2015 and 2014. Due to an unpredictable volatile market, the Group was more conservative in controlling marketing expenses during the year.

Depreciation and Amortisation

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

Net Profit

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

Capital Expenditure

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

Liquidity and Financial Resources Review

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

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

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

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

Foreign Currency Risk

Our Group operates mainly in Hong Kong and Mainland China and conducts our business primarily in HK$ and Renminbi ("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.

Contingent Liabilities

(i) Taclon Industries Limited ("Taclon"), a subsidiary of the Company, is involved in a potential litigation the claim of which amounted to approximately HK$10.3 million (the "Alleged Debt"). It is the understanding of the directors of the Company that the Alleged Debt is a personal debt belongs to a Taclon's ex-director. The directors of the Company are of the view that Taclon did not or does not owe the claimant the Alleged Debt and will vigorously defend the Taclon's position in the legal proceeding. Moreover, AC Alliance Investment Limited, a related company outside the Group, had confirmed, covenant and undertaken to indemnify and keep indemnified fully Taclon against any cost, loss or damages arising from the litigation.

(ii) Taclon has several pending litigations and claims with its former employees of which provision of approximately HK$1,000,000 has been provided as at 31 December 2015.

Human Resources

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

During the year ended 31 December 2015, various training activities, such as orientation on both frontline and back office operations, customer services & selling skills, product knowledge (Herbal Ambassador Training Course) and retail operations, have been conducted to improve the quality of front-end services, as well as enlightening customers consuming experience and to ensure the smooth and effective operation of the Point-of-Sales ("POS") system. A management trainee program was also run to enhance participants' management skills and assist in the future career development of the management talents.

OTHER INFORMATION

Dividends

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

Subject to the approval of the shareholders at the forthcoming AGM the final and special dividends will be payable on or about 15 July 2016 to the shareholders whose name appears on the Register of Members of the Company at the close of business on 14 June 2016.

Closure of Register of Members

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

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

Corporate Governance Code

In the opinion of the Directors, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the year ended 31 December 2015.

Model Code for Securities Transactions

The Company has adopted a code of conduct (the "**Code of Conduct**") based on the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "**Model Code**"). For the year ended 31 December 2015, all of the Directors confirmed that they have complied with the required standards set out in the Code of Conduct.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2015.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") which currently consists of three independent non-executive directors of the Company with written terms of reference which deal clearly with its authority and duties.

The Group's annual results for the year ended 31 December 2015 have been reviewed by the Audit Committee.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Publication of Annual Report

The annual report for the year ended 31 December 2015 containing all relevant information required by the Listing Rules will be despatched to shareholders of the Company and published on the Company's website (www.hungfooktong.com) and the designated website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) in due course.

On behalf of the Board of
Hung Fook Tong Group Holdings Limited
TSE Po Tat
Chairman

Hong Kong, 24 March 2016

As at the date of this announcement, the Board comprises Mr. Tse Po Tat, Ms. Wong Pui Chu, Mr. Kwan Wang Yung and Dr. Szeto Wing Fu as executive Directors; and Mr. Kiu Wai Ming, Professor Sin Yat Ming and Mr. Andrew Look as independent non-executive Directors.