



恒 | 發 | 洋 | 參
HANG FAT GINSENG

Hang Fat Ginseng Holdings Company Limited

恒發洋參控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 911

INTERIM REPORT

2014



靜心安神

消除疲勞

補氣養陰

清熱生津

遠洋過海

滋補金牌



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Corporate Profile

Hang Fat Ginseng Holdings Company Limited (the “Company”) and its subsidiaries (collectively “Hang Fat” or the “Group”) is primarily engaged in the sourcing and wholesaling of American Ginseng (*Panax quinquefolius L.*, a herbaceous perennial plant in the Araliaceae family, which comprises Cultivated Ginseng and Wild Ginseng). According to an industry report commissioned by the Group, the Group was the largest first-level American Ginseng wholesaler in Hong Kong in 2013 in terms of sales revenue and sales volume. The Group’s market share of the total revenue generated by the first-level American Ginseng wholesalers in Hong Kong was over 50% in 2013. Hong Kong is one of the most important American Ginseng shipping and receiving port in the world, and around 90.3% of Canada’s American Ginseng exports were destined to Hong Kong in 2013. The Group is the leading player in the American Ginseng wholesale market and able to enjoy relative strong bargaining power with its customers as well as growers and suppliers.



Milestone

Year 2014 is a special year for Hang Fat. This year is the 30th anniversary of the founding of Hang Fat and its predecessor and on 27 June 2014 (the “Listing Date”), the Company was successfully listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

30th ANNIVERSARY AND SPECIAL DIVIDEND

In order to celebrate the 30th anniversary of the founding of Hang Fat and its predecessor, the Chairman proposed and subject to the approval of the Board, the Company may consider the declaration of a possible special dividend subject to the results and working capital of the Group during the second half of the year 2014. Such intention does not amount to any guarantee, representation or indication that the Group must or will declare and pay dividends in such manner or declare and pay any special dividends at all. The Group will make a separate announcement according to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) when and where appropriate.

SUCCESSFUL LISTING

The Company was successfully listed on the Stock Exchange which marked a milestone to extend its footprint from Hong Kong to the overseas and set sights on the globe, while further expanding the shareholder base of the Company so as to bolster and fuel its future business development. It will further strengthen its purchasing power and increase its market share in the wholesale market of American Ginseng, and it has confidence that it can maintain its leading position in the American Ginseng market in the foreseeable future.



Financial Highlights

Key Financial Information	Notes	Six months ended 30 June		% Change
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	
PERFORMANCE				
Revenue		851,768	548,491	+55.3%
Gross Profit		266,309	130,560	+104.0%
Net Profit for the period		175,934	100,371	+75.3%
Adjusted Net Profit for the period (excluding non-operating items)	1	194,202	100,021	+94.2%
Gross Profit Margin		31.3%	23.8%	+7.5%
Net Profit Margin	2	20.7%	18.3%	+2.4%
Adjusted Net Profit Margin	3	22.8%	18.2%	+4.6%
		HK cents	HK cents	
Interim dividend per share	4	5	–	

Notes

- Adjusted net profit for the period means net profit for the period excluding the non-operating items. Non-operating items include changes in fair values of property investment, rental incomes and listing expenses.
- Net profit margin is calculated as net profit attributable to equity holders of the Company divided by revenue.
- Adjusted Net profit margin is calculated as adjusted net profit attributable to equity holders of the Company divided by revenue.
- The Interim dividend for the six months ended 30 June 2014 was HK5 cents per share of the Company calculated based on 2,000,000,000 shares of the Company issued as at 30 June 2014.

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Yeung Wing Yan (*chairman and chief executive officer*)
Mr. Yeung Wing Kong
Ms. Fu Fung Sau

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Senta
Mr. Kwok Lam Kwong Larry
Mr. Cheung Chung Wai Billy

COMPANY SECRETARY

Ms. Yip Tak Yung Teresa

AUDIT COMMITTEE

Mr. Cheung Chung Wai Billy (*Chairman*)
Mr. Wong Senta
Mr. Kwok Lam Kwong Larry

REMUNERATION COMMITTEE

Mr. Wong Senta (*Chairman*)
Mr. Yeung Wing Yan
Mr. Cheung Chung Wai Billy

NOMINATION COMMITTEE

Mr. Wong Senta (*Chairman*)
Mr. Yeung Wing Yan
Mr. Cheung Chung Wai Billy

AUTHORISED REPRESENTATIVES

Mr. Yeung Wing Yan
Ms. Yip Tak Yung Teresa

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

G/F, Nam Pak Hong Commercial Centre
44 Bonham Strand West, Hong Kong

PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Ltd

AUDITORS

Deloitte Touche Tohmatsu

STOCK CODE

0911

WEBSITE

www.hangfatg.com

Management Discussion and Analysis

The traditional Chinese medicine and healthcare industry maintained a continuous growth momentum in the first six months of 2014. American Ginseng, being one of the most important Chinese medicine and healthcare products, benefits from the increasing healthcare awareness, due to rising tide of prosperity in China and recognition of the unique effects of traditional Chinese medicines on body adaptation and disease prevention. The demand of American Ginseng was continuous increasing in recent years with the average selling price boosts up as well. The average wholesale price of American Ginseng of the Group increased by 65% when comparing six months ended 30 June 2014 and 2013. With management's rich American Ginseng industry experience and well established close relationships with suppliers and customers for 20 years, the Group can secure a stable supply of quality American Ginseng for its customers and maintain a good gross profit margin of 31.3% for the six months ended 30 June 2014.

The Company listens to the voice of shareholders with an open mind and dedicate itself to operate with progressive reforms and improvements, so as to expand its product portfolio.

During the six months ended 30 June 2014 (the "Interim Period"), the Group was mainly engaged in the selling of American Ginseng grown in America and Canada. In order to expand the revenue streams of the Group, the Group plans to engage in trading of top quality American Ginseng from other areas, red ginseng and other ginseng. It will continue to adopt a prudent but proactive approach and source high quality American Ginseng to its customers.

For retail business, the Group is actively developing and promoting its Hang Fat (恒發) brand by expanding its product portfolio and distribution channels. The Group targets to launch various high-quality American Ginseng health supplements and food so as to diversify its products to different age group. As at the date of this announcement, the Group has set up 7 store-in-store concessions in selected hypermarkets and supermarkets and 1 headquarter shop in Sheung Wan for the sale of its American Ginseng products. To introduce a new shopping environment, the Group is exploring the online shopping platform which will broaden its retail customer base with its convenience.

In addition, the Group plans to open a Wild Ginseng headquarter shop in Sheung Wan in the third quarter of 2014 to promote the knowledge and medicinal value of Wild Ginseng. Wild Ginseng is gathered from the natural environment, which mainly grows in the various states of the United States including Ohio, Kentucky, Indiana and Pennsylvania. Due to its scarcity and high perceived medicinal value, the price of Wild Ginseng is much higher than that of the Cultivated Ginseng.

However, the public lacks knowledge about Wild Ginseng, so it is expected that the Group's new Wild Ginseng shop will help to raise public awareness of its Hang Fat (恒發) brand and further promote the use of Wild Ginseng for health conscious consumption and in turn stimulate the continued growth in market demand that ultimately drive its sales.

The Group intends to further strengthen its Hang Fat (恒發) brand recognition among general public consumers and reinforce the Group's strong market position in the American Ginseng industry. The Group will continue to make its best effort to explore other business opportunities in American Ginseng business in other countries including the mainland China, in order to maximise shareholders' returns.

Management Discussion and Analysis

GROUP FINANCIAL REVIEW

REVENUE AND GROSS PROFIT

For the Interim Period, the Group's revenue increased to approximately HK\$851.8 million, representing approximately 55.3% increase from approximately HK\$548.5 million recorded in the first half of 2013, with sales of Cultivated Ginseng and Wild Ginseng contributing approximately HK\$768.2 million and HK\$83.0 million, respectively, accounting for approximately 90.2% and 9.7% of the Group's total revenue for the six months ended 30 June 2014 (six months ended 30 June 2013: sales of Cultivated Ginseng and Wild Ginseng contributed approximately HK\$523.9 million and HK\$23.6 million, accounting for approximately 95.5% and 4.3% of the Group's total revenue respectively). The increase in revenue was largely attributable to the increase in the average selling price of American Ginseng, resulting from the constant increase in the demand for the American Ginseng. With the market price keep on increasing during the Interim Period, the Group can sell its stock at a higher price. Its gross profit rose to approximately HK\$266.3 million in the first half of 2014, which accounts for approximately 104.0% increment compared with that the same period in 2013. The gross profit margin increased to approximately 31.3% from 23.8% in first half of 2014.

NET PROFIT

The Group's net profit for the period was approximately HK\$175.9 million, with approximately 75.2% increment from approximately HK\$100.4 million over the same period in 2013. The Group's net profit margin for the period increased from approximately 18.3% to 20.5% compared with last corresponding period. The increase was mainly attributable to the net effect of the increase in gross profit from sales of American Ginseng and inclusion of one-off costs incurred associated with the listing of the shares of the Company (the "Listing") in the Interim Period of approximately HK\$16.7 million (six months ended 30 June 2013: approximately HK\$0.6 million).

TRADE RECEIVABLES

The Group's trade receivables as at 30 June 2014 increased to approximately HK\$422.5 million from approximately HK\$62.2 million as at 31 December 2013. The increase was mainly attributable to the seasonality of sales made in first half of 2014. The management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. The management considered that the trade receivables are recoverable.

FOREIGN EXCHANGE RISK

The Group faces foreign exchange risk as certain cash and cash equivalents are denominated in foreign currencies. The reporting currency is Hong Kong dollars and the sales of the Group are mainly denominated in Hong Kong dollars and Reminbi ("RMB") and the Group receives all its trade receivables from customers in Hong Kong dollars. The purchases of Cultivated Ginseng are mainly made in Canadian dollars ("CAD") and the purchases of Wild Ginseng are mainly made in United States dollars ("USD"). As a result, the Group incurred transactional and translational foreign currency gains or losses from its operations. With the appreciation of CAD and depreciation of RMB, the Group incurred a loss of foreign exchange differences amounted to approximately HK\$10.5 million for the six months ended 30 June 2014 (six months ended 30 June 2013: a gain of foreign exchange differences amounted to approximately HK\$5 million). The Board will continuously monitor the foreign exchange exposure and will consider hedging of foreign currency risk should the need arise.

Management Discussion and Analysis

FINANCIAL RESOURCES AND LIQUIDITY

The Group maintained a strong financial and liquidity position for the six months ended 30 June 2014. The total assets increased by approximately 63.7% to approximately HK\$1,657.9 million (31 December 2013: approximately HK\$1,012.9 million). The increase was primarily due to the net cash proceeds of approximately HK\$924.1 million raised from the Company's initial public offering.

BANK BORROWINGS AND CHARGE ON GROUP ASSETS

The Group's bank borrowings decreased by approximately HK\$72.5 million from approximately HK\$361.7 million as at 31 December 2013 to approximately HK\$289.2 million as at 30 June 2014, of which HK\$151.5 million (52.4%) was denominated in HKD, while HK\$125.2 million (43.3%) was denominated in CAD and the remaining HK\$12.5 million was denominated in USD (4.3%). Certain of the borrowings were secured by the Group's buildings, investment properties and bank deposits, having a carrying value of approximately HK\$184.7 million. The bank borrowings are at floating interest rates.

FAIR VALUE OF INVESTMENT PROPERTIES

Fair value of investment properties held by the Group decreased from HK\$87.0 million as at 31 December 2013 to HK\$84.5 million as at 30 June 2014. The fair value has been arrived at on the basis of valuation carried out by an independent valuer.

CAPITAL EXPENDITURE

For the interim period, the capital expenditure of the Group was approximately HK\$21.5 million (for the six months ended 30 June 2013: approximately HK\$0.4 million), which was mainly used in acquisition of office premises for the Group's self-use.

GEARING RATIO

The Group's gearing ratio (measured by total borrowings divided by total equity) decreased from 149.3% as at 31 December 2013 to 24.9% as at 30 June 2014 mainly because the total equity increased from HK\$242.2 million as at 31 December 2013 to HK\$1,159.7 million as at 30 June 2014, which was mainly increase in the share capital and share premium upon global offering.

CONTINGENT LIABILITIES

At 30 June 2014 and 31 December 2013, the Group had no material contingent liabilities.

Management Discussion and Analysis

DIVIDEND

Pursuant to the resolution passed at the meeting of the Board on 5 August 2014, the Directors declared the interim dividends for the six months ended 30 June 2014 of HK\$0.05 (for the six months ended 30 June 2013: Nil) per ordinary share of the Company to shareholders of the Company whose names appear on the register of members of the Company on 5 September 2014, totaling HK\$100,000,000 (for the six months ended 30 June 2013: Nil).

In order to celebrate the 30th anniversary of the founding of Hang Fat and its predecessor, the Chairman proposed and subject to the approval of the Board, the Company may consider the declaration of a possible special dividend subject to the results and working capital of the Group during the second half of the year 2014. Such intention does not amount to any guarantee, representation or indication that the Group must or will declare and pay dividends in such manner or declare and pay any special dividends at all. The Group will make a separate announcement according to the Listing Rules when and where appropriate.

CLOSURE OF REGISTERS OF MEMBERS

In order to determine the entitlement to the interim dividend for the six months ended 30 June 2014, the register of members of the Company will be closed from 4 September 2014 to 5 September 2014 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2014, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on 3 September 2014. The interim dividend will be paid on or about 17 September 2014.

USE OF PROCEEDS

The Company's shares commenced trading on the Stock Exchange on 27 June 2014, the Group raised net proceeds of approximately HK\$924.1 million from the global offering. The Group intends to apply such proceeds in the manner consistent with the intended use of proceeds as disclosed in the Prospectus. Details of the intended use of proceeds are set out in the Prospectus. As of the date of this report, we have utilised approximately HK\$88.3 million for purchase of Cultivated Ginseng and approximately HK\$76.4 million for repayment of bank borrowings. The unused proceeds were deposited in licensed banks in Hong Kong.

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

(I) LONG POSITIONS IN THE SHARES OF THE COMPANY

Name of Director	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Yeung Wing Yan	Interest of controlled corporations	1,389,000,000 shares (Note 1)	69.45%
Mr. Yeung Wing Kong	Interest of controlled corporations	90,000,000 shares (Note 2)	4.5%
Ms. Fu Fung Sau	Interest of controlled corporations	21,000,000 shares (Note 3)	1.05%

Notes:

1. These Shares consist of 1,200,000,000 shares held by Cervera Holdings Limited ("Cervera") and 189,000,000 shares held by Athena Power Limited ("Athena Power"). Cervera is owned as to 63% by Mr. Yeung Wing Yan, 30% by Mr. Yeung Wing Kong and 7% by Ms. Fu Fung Sau. Athena Power is wholly owned by Mr. Yeung Wing Yan.
2. These shares consist of 90,000,000 shares held by Dragon Jump Global Limited ("Dragon Jump"), which is wholly owned by Mr. Yeung Wing Kong.
3. These shares consist of 21,000,000 shares hold by Ace Fame Management Limited, which is wholly owned by Ms. Fu Fung Sau.

Corporate Governance and Other Information

(II) LONG POSITIONS IN THE SHARES OF AN ASSOCIATED CORPORATION OF THE COMPANY – CERVERA

Name of Director	Capacity	Number of shares	Percentage of shareholding
Mr. Yeung Wing Yan	Beneficial owner	63 Shares of US\$1 each	63%
Mr. Yeung Wing Kong	Beneficial owner	30 Shares of US\$1 each	30%
Ms. Fu Fung Sau	Beneficial owner	7 Shares of US\$1 each	7%

Save as disclosed above, as at 30 June 2014, no Directors or chief executive of the Company have any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have 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 were taken or deemed to be have under such provisions) or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to notify the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons, other than the Directors and the chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital were as follows:

Corporate Governance and Other Information

LONG POSITIONS IN THE SHARES OF THE COMPANY

Name of Shareholders	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
Ms. Wong Mei Kuen Joan	Interest of spouse	1,389,000,000 shares (<i>Note</i>)	69.45%
Cervera	Beneficial owner	1,200,000,000 shares	60.00%
Athena Power	Beneficial owner	189,000,000 shares	9.45%

Note: Ms. Wong Mei Kuen Joan is the wife of Mr. Yeung Wing Yan.

Saved as disclosed above, as at 30 June 2014, so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, no persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or has any options in respect of such capital.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing on 9 June 2014 pursuant to an ordinary resolution in writing passed by the Shareholders on 9 June 2014 for the purpose of providing incentives or rewards to selected employees and directors for their contribution to the Group.

Under the Scheme, the Company may grant options to selected employees and directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible suppliers, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the Board.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the Listing Date, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive Directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, independent non-executive Directors, or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's issued share capital in aggregate or with an aggregate value in excess of HK\$5,000,000 must be also approved by the Company's shareholders.

Corporate Governance and Other Information

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the grant of the share options which must be a business day; (ii) the average Stock Exchange's closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

No options have been granted under the Scheme as at 30 June 2014.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities from the Listing Date up to 30 June 2014.

CORPORATE GOVERNANCE CODE

The Board is committed to achieving high standards of corporate governance to safeguard the interest of the Company's shareholders and to enhance corporate value and accountability. For the period from its Listing Date up to 30 June 2014, the Company has applied the principles and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, except in relation to CG Code provision A.2.1, as more particularly described below.

CG Code provision A.2.1 states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The roles of the chairman and the chief executive officer of the Company are not separate and both are performed by Mr. Yeung Wing Yan. The Board considers that the Company is still in its growing stage and it would be beneficial to the Group for Mr. Yeung Wing Yan to assume both roles as the chairman and chief executive officer of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organisation, the Board will consider splitting the two roles to be assumed by two individuals. With the strong business experience of the Directors, they do not expect any issues would arise due to the combined role of Mr. Yeung Wing Yan.

The Group also has in place an internal control system to perform the check and balance function. There are also three independent non-executive Directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of power and safeguards in place to enable the Company to make and implement decisions promptly and effectively.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct rules regarding securities transactions by Directors on terms no less exactly than the required standard set out in the Model Code, and that having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors between the Listing Date and 30 June 2014.

Corporate Governance and Other Information

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated interim financial statements for the Interim Period with the Directors.

The Audit Committee comprises three independent non-executive directors, namely Mr. Cheung Chung Wai Billy (Chairman of the Audit Committee), Mr. Wong Senta and Mr. Kwok Lam Kwong Larry.

On behalf of the Board

Mr. Yeung Wing Yan

Chairman and Chief Executive Officer

Hong Kong, 5 August 2014

Report on Review of Condensed Consolidated Financial Statements



TO THE BOARD OF DIRECTORS OF HANG FAT GINSENG HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Hang Fat Ginseng Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 32, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Report on Review of Condensed Consolidated Financial Statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period ended 30 June 2013 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

5 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	3	851,768	548,491
Costs of sales		(585,459)	(417,931)
Gross profit		266,309	130,560
Other income, gains and losses	4	(9,190)	6,169
Administrative expenses		(16,965)	(10,561)
Listing expenses		(16,728)	(610)
Change in fair value of investment properties		(2,500)	–
Finance costs	5	(6,205)	(6,267)
Profit before taxation	6	214,721	119,291
Income tax expense	7	(38,787)	(18,920)
Profit and total comprehensive income for the period		175,934	100,371
Earnings per share – basic	9	11.64 HK cents	6.69 HK cents

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	33,847	14,317
Investment properties	11	84,500	87,000
Deposits paid for acquisition of property, plant and equipment		524	3,567
		118,871	104,884
Current assets			
Inventories		70,848	563,718
Trade and other receivables	12	478,351	86,942
Amount due from a director		–	197,187
Pledged bank deposits		71,700	12,758
Bank balances and cash		918,097	47,368
		1,538,996	907,973
Current liabilities			
Trade and other payables	13	130,104	362,556
Obligations under finance leases		1,163	1,331
Bank borrowings	14	289,195	361,717
Taxation payable		67,152	33,703
		487,614	759,307
Net current assets		1,051,382	148,666
Total assets less current liabilities		1,170,253	253,550
Non-current liabilities			
Obligations under finance leases		2,158	2,770
Deferred tax liabilities		8,444	8,580
		10,602	11,350
Net assets		1,159,651	242,200
Capital and reserves			
Share capital	15	20,000	1
Reserves		1,139,651	242,199
Total equity		1,159,651	242,200

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2014 (audited)	1	–	8,562	233,637	242,200
Profit and total comprehensive income for the period	–	–	–	175,934	175,934
Arising from group restructuring (<i>Note</i>)	9	–	(9)	–	–
Issue of shares by capitalisation of share premium account (<i>Note 15c</i>)	14,990	(14,990)	–	–	–
Issue of new shares (<i>Note 15d</i>)	5,000	985,000	–	–	990,000
Expenses incurred in connection with the issue of new shares	–	(38,483)	–	–	(38,483)
Dividend paid	–	–	–	(210,000)	(210,000)
At 30 June 2014 (unaudited)	20,000	931,527	8,553	199,571	1,159,651
At 1 January 2013 (audited)	1	–	8,561	105,024	113,586
Profit and total comprehensive income for the period	–	–	–	100,371	100,371
Issue of shares	1	–	–	–	1
At 30 June 2013 (unaudited)	2	–	8,561	205,410	213,973

Note: The amount of HK\$9,000 arising from group restructuring represents the net result of crediting the Company's HK\$10,000 share capital as fully paid upon group restructuring (see details in note 15b) and the elimination of HK\$1,000 share capital of Hang Fat Group Holdings Limited ("Hang Fat Group"), the direct wholly-owned subsidiary of the Company, after interspersing the Company between Mr. Yeung Wing Yan, Mr. Yeung Wing Kong and Ms. Fu Fung Sau (the "Common Shareholders") and Hang Fat Group on 23 May 2014.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Net cash from operating activities	89,155	101,385
Net cash from (used) in investing activities		
Repayment from a director	10,950	51,430
Withdrawal of pledged bank deposits	644	6,468
Proceeds from disposal of property, plant and equipment	76	118
Placement of pledged bank deposits	(59,586)	(3,061)
Advance to a director	(23,563)	(90,841)
Purchase of property, plant and equipment	(17,295)	(431)
Deposit paid on acquisition of property, plant and equipment	(524)	–
Interest received	10	4
	(89,288)	(36,313)
Net cash from (used in) financing activities		
Proceeds from issue of new shares	990,000	–
New bank loans raised	296,398	345,761
Repayments of bank loans	(361,979)	(401,067)
Expenses incurred in connection with issue of new shares	(38,483)	–
(Decrease) increase in bank overdrafts	(9,158)	934
Interest paid	(5,273)	(6,267)
Repayments of obligations under finance leases	(643)	(655)
	870,862	(61,294)
Net increase in cash and cash equivalents	870,729	3,778
Cash and cash equivalents at beginning of the period	47,368	14,245
Cash and cash equivalents at end of the period, represented by bank balances and cash	918,097	18,023

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

1. General and basis of preparation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 August 2011 under the Companies Law, Cap 22 (Law 33 of 1961, as consolidated and revised) of Cayman Islands. The Company's immediate and ultimate holding company is Cervera Holdings Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is G/F., Nam Pak Hong Commercial Center, 44 Bonham Strand West, Hong Kong.

The Company's shares were listed on the Main Board of the Stock Exchange on 27 June 2014.

The Company is an investment holding company. The principal activities of its subsidiaries are sourcing, wholesale and retail sale of ginseng and dried foods.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company.

In preparing for the initial listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 23 May 2014. The details of the group restructuring are set out in the prospectus dated 17 June 2014 issued by the Company (the "Prospectus"). The Company and its subsidiaries have been under the common control of the Common Shareholders since 1 January 2013 or since their respective date of incorporation or establishment, where there is a shorter period and that control is not transitory.

The Group resulting from the group restructuring is regarded as a continuing entity. Accordingly, the condensed consolidated statements of profit or loss and other comprehensive income and cash flows for the six months ended 30 June 2014 and 30 June 2013 included the results and cash flows of the companies now comprising the Group which have been prepared by applying the principles of merger accounting, which is consistent with the principle as stated in the Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA, as if the group structure upon the completion of the group restructuring had been in existence since 1 January 2013 or since their respective dates of incorporation or establishment where this is a shorter period. The condensed consolidated statement of financial position as at 31 December 2013 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at that date.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's financial information for the three years ended 31 December 2013 incorporated in the Prospectus. In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretation issued by the HKICPA that are mandatorily effective for the current interim period. The adoption of the amendments to HKFRSs and interpretation has had no material effect on the reported results and financial position of the Group for the current and prior accounting periods.

3. Segment information

The Group determines its operating segments based on internal reports reviewed by the chief operating decision maker, the Chairman of the Company, for the purpose of allocating resources to the segment and to assess its performance which focus on the different type of products. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows (i) Cultivated American ginseng ("Cultivated Ginseng"); (ii) Wild ginseng from the United States ("Wild Ginseng"); (iii) Others: trading of other foods (including dried cordyceps, dried cubilose and dried seafood).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

3. Segment information (Continued)

The following is an analysis of the Group's revenue and results by reportable and operating segment:

	Segment revenue		Segment results	
	Six months ended 30 June 2014 HK\$'000 (unaudited)	Six months ended 30 June 2013 HK\$'000 (unaudited)	Six months ended 30 June 2014 HK\$'000 (unaudited)	Six months ended 30 June 2013 HK\$'000 (unaudited)
Cultivated Ginseng	768,171	523,852	260,807	126,989
Wild Ginseng	82,965	23,587	5,227	3,169
Others	632	1,052	275	402
	851,768	548,491	266,309	130,560
Gain on disposal of property, plant and equipment			199	34
Listing expenses			(16,728)	(610)
Changes in fair value of investment properties			(2,500)	–
Exchange (loss) gain			(10,359)	5,171
Unallocated corporate income			970	964
Unallocated corporate expenses			(16,965)	(10,561)
Finance costs			(6,205)	(6,267)
Profit before taxation			214,721	119,291

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the period.

Segment profit during the period represents the profit earned by each segment without allocation of gain on disposal of property, plant and equipment, listing expenses, changes in fair value of investment property, exchange (loss) gain, unallocated income such as interest income, unallocated expenses such as central administrative expenses and finance costs. This is the measure reported to the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

Segment assets

No segment assets are presented as such amounts are not reviewed by the Group's chief operating decision maker for the purpose of resource allocation and performance assessment or otherwise regularly provided to the Group's chief operating decision maker.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

4. Other income, gains and losses

	Six months ended 30 June 2014 HK\$'000 (unaudited)	Six months ended 30 June 2013 HK\$'000 (unaudited)
Interest income on bank deposits	10	4
Rental income	960	960
Exchange (loss) gain, net	(10,359)	5,171
Gain on disposal of property, plant and equipment	199	34
	(9,190)	6,169

5. Finance costs

	Six months ended 30 June 2014 HK\$'000 (unaudited)	Six months ended 30 June 2013 HK\$'000 (unaudited)
Interest on:		
Bank loans and overdrafts wholly repayable within five years	6,076	6,088
Finance leases wholly repayable within five years	129	179
	6,205	6,267

6. Profit before taxation

	Six months ended 30 June 2014 HK\$'000 (unaudited)	Six months ended 30 June 2013 HK\$'000 (unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	1,119	1,000
Operating lease rentals in respect of office premises	758	791

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

7. Income tax expense

	Six months ended 30 June 2014 HK\$'000 (unaudited)	Six months ended 30 June 2013 HK\$'000 (unaudited)
The taxation comprises:		
Hong Kong Profits Tax:		
Current period	38,923	19,776
Overprovision in prior period	–	(856)
Deferred tax:		
Current period	(136)	–
	38,787	18,920

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the period.

8. Dividends

Pursuant to a resolution passed at the Board meeting on 5 August 2014, the Directors declared the interim dividends for the six months ended 30 June 2014 of HK\$0.05 (six months ended 30 June 2013: Nil) per ordinary share totaling HK\$100,000,000 (six month ended 30 June 2013: Nil). Dividend declared after the end of the reporting period are not recognised as a liability at the end of the reporting period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

9. Earnings per share

	Six months ended 30 June 2014 HK\$'000	Six months ended 30 June 2013 HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share	175,934	100,371

	Number of shares	
	Six months ended 30 June 2014 '000	Six months ended 30 June 2013 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,511,050	1,500,000

The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2014 and 2013 has been retrospectively adjusted to reflect 1,499,000,000 shares issued upon capitalisation on 9 June 2014 as disclosed in note 15.

No diluted earnings per share is presented as there are no dilutive potential ordinary shares during the periods.

10. Movements in property, plant and equipment

During the period, the Group acquired leasehold land and buildings situated in Hong Kong under medium lease term of approximately HK\$20,130,000 and other property, plant and equipment of approximately HK\$1,407,000 (the six months ended 30 June 2013: HK\$431,000). Part of the consideration of approximately HK\$3,567,000 and HK\$675,000 (the six months ended 30 June 2013: Nil and Nil) were settled through deposits paid in prior year and finance lease contracts entered into during current period respectively.

Also, during the period, the Group disposed of certain property, plant and equipment with aggregate carrying amount of HK\$888,000 (six months period ended 30 June 2013: HK\$1,166,000) for proceeds of HK\$1,087,000 of which HK\$76,000, HK\$811,000 and HK\$200,000 were settled in cash, release of obligation under finance and current account with a director respectively (six months ended 30 June 2013: HK\$118,000 and HK\$1,082,000 were settled in cash and release of obligation under finance lease respectively), and resulting in a gain on disposal of HK\$199,000 (six months ended 30 June 2013: HK\$34,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

11. Investment properties

The fair value of the Group's investment properties at 30 June 2014 and 31 December 2013 was HK\$84,500,000 and HK\$87,000,000 respectively. The fair value has been arrived at on the basis of valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer which is not connected to the Group whose address is 6th Floor., Three Pacific Place, 1 Queen's Road East, Hong Kong. The fair value of the investment properties was arrived by using direct comparison method based on market observable transactions of similar properties in the similar conditions and locations of the subject properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

12. Trade and other receivables

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
Trade receivables	422,497	62,184
Other receivables		
Deposits paid for purchase of ginseng	55,047	21,626
Prepayments and others	807	3,132
Total trade and other receivables	478,351	86,942

The Group generally grants credit periods ranging from 30 days to 180 days to its customers. Before accepting any new customer, the Group will internally assess the potential customer's credit quality and define an appropriate credit limit. The management closely monitors the credit quality and follow-up action is taken if overdue debts are noted.

The following is an aged analysis of trade receivables based on the invoice date at the end of each reporting period:

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
Within 30 days	76,164	47,533
31 to 90 days	119,325	14,310
91 to 180 days	227,008	341
	422,497	62,184

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

13. Trade and other payables

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
Trade payables	70,916	296,108
Other payables		
– Customers' deposits received	–	58,509
– Accrued expenses	51,624	6,525
– Amount due to a bulk exporter (<i>Note</i>)	7,244	1,094
– Others	320	320
Total trade and other payables	130,104	362,556

Note: Amount represents purchase deposits paid by a bulk exporter on behalf of the Group to other suppliers as at 31 December 2013 and 30 June 2014. The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis trade payables based on invoice date at the end of each reporting period:

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
0 to 30 days	5,196	290,319
31 to 90 days	3,856	5,786
91 to 180 days	4	–
Over 180 days	61,860	3
	70,916	296,108

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

14. Bank borrowings

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
Bank overdrafts	–	9,158
Bank loans		
– Trust receipt loans	245,857	304,886
– Mortgage loans	18,997	12,845
– Other bank loans	24,341	34,828
	289,195	352,559
	289,195	361,717
Carrying amount repayable within one year*	272,686	350,771
Carrying amount of bank loans that are not repayable within one year from the end of reporting period but contain a repayment on demand clause (shown under current liability)	16,509	10,946
Less: Amounts due within one year shown under current liabilities	(289,195)	(361,717)
Amounts shown under non-current liabilities	–	–

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The bank loans of the Group comprised variable-rate loans which carry interest with reference to Hong Kong Interbank Offered Rate/London Interbank Offered Rate and Prime rate and the ranges of effective interests of the banks loans are as follows:

	As at 30.6.2014	As at 31.12.2013
Variable-rate loans	1.22% to 4.3%	1.21% to 6%

The Group has pledged buildings, investment properties and bank deposits having a carrying value of approximately HK\$184,681,000 at 30 June 2014 (HK\$108,346,000 at 31 December 2013) to secure general banking facilities granted to the Group. The banking facilities were also supported by corporate guarantee of the group entities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

14. Bank borrowings (Continued)

The banking facilities at 31 December 2013 were also supported by corporate guarantee and/or personal guarantee and/or secured by certain assets owned by certain directors of the Company. And the banking facilities secured by assets owned by certain directors of the Company and guaranteed by certain directors of the Company were released in June 2014.

Also, the Group has unutilised available credit facilities of HK\$88,519,000 at 30 June 2014 (HK\$23,455,000 at 31 December 2013).

Included in the bank borrowings are the following amounts denominated in currencies other than functional currencies of the relevant group companies.

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
US\$	12,505	114,798
CAD	125,208	1,447

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

15. Share capital

The share capital of the Group at 31 December 2013 represents the aggregate issued and paid up share capital of Hang Fat Group and issued nil-paid share capital of the Company.

The movement in share capital of the Company are as follows:

	<i>Notes</i>	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each			
Authorised:			
At 1 January 2013 and at 31 December 2013		1,000,000	10
Increase on 9 June 2014	<i>(a)</i>	4,999,000,000	49,990
At 30 June 2014		5,000,000,000	50,000
Issued and fully paid:			
At 1 January 2013 and at 31 December 2013		1,000,000	–
Arising from group restructuring	<i>(b)</i>	–	10
Issue of shares by capitalisation of share premium account	<i>(c)</i>	1,499,000,000	14,990
Issue of new shares upon the global offering	<i>(d)</i>	500,000,000	5,000
At 30 June 2014		2,000,000,000	20,000

Notes:

- (a) Pursuant to the written resolutions passed by the shareholders of the Company on 9 June 2014, the authorised share capital of the Company was increased from HK\$10,000 to HK\$50,000,000 by the creation of an additional 4,999,000,000 new shares of HK\$0.01 each in the capital of the Company.
- (b) Pursuant to the group restructuring, on 23 May 2014, the Company acquired entire issued share capital of Hang Fat Group in consideration of which the Company, as directed by the Common Shareholders, credited as fully paid the 1,000,000 nil-paid shares of HK\$0.01 each in aggregate of HK\$10,000.
- (c) Pursuant to the written resolution passed by the shareholders of the Company on 9 June 2014, the sum of HK\$14,990,000 standing to credit of the share premium account of the Company was approved to be capitalised and applied in paying in full at par of for allotment and issue 1,499,000,000 ordinary shares of HK\$0.01 each.
- (d) On 27 June 2014, 500,000,000 ordinary shares of HK\$0.01 each of the Company were issued at HK\$1.98 per share by way of global offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

The share issued rank pari passu with other shares in issue in all respects.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

16. Non-cash transactions

On 21 May 2014, Hang Fat Group, declared a dividend of HK\$210,000,000 to its then equity owners. The dividend is satisfied by current account with a director.

17. Capital commitments

	As at 30.6.2014 HK\$'000 (unaudited)	As at 31.12.2013 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	350	16,211