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## 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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board (the “**Board**”) of directors (the “**Directors**”) of Hang Fat Ginseng Holdings Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2016 (“the **Interim Period**”), together with the comparative figures for the corresponding period ended 30 June 2015 as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*Six months ended 30 June*

	<i>NOTES</i>	<u>2016</u> <i>HK\$'000</i> <b>(unaudited)</b>	<u>2015</u> <i>HK\$'000</i> <b>(unaudited)</b>
Revenue	3	<b>243,989</b>	1,245,170
Costs of sales		<b>(222,603)</b>	(717,509)
Gross profit		<b>21,386</b>	527,661
Other income, gains and losses	4	<b>(91,162)</b>	61,127
Selling and distribution costs		<b>(2,673)</b>	(5,917)
Administrative expenses		<b>(37,821)</b>	(43,237)
Change in fair value of investment properties		<b>(4,600)</b>	1,638
Finance costs	5	<b>(15,002)</b>	(20,209)
(Loss) profit before taxation	6	<b>(129,872)</b>	521,063
Income tax expense	7	<b>–</b>	(82,797)

	<u>NOTES</u>	<u>2016</u> <u>HK\$'000</u> <u>(unaudited)</u>	<u>2015</u> <u>HK\$'000</u> <u>(unaudited)</u>
(Loss) profit for the period		(129,872)	438,266
Other comprehensive expense for the period			
Exchange differences arising on translation of foreign operation		<u>23</u>	<u>(24)</u>
Total comprehensive (expense) income for the period		<u>(129,849)</u>	<u>438,242</u>
(Loss) profit for the period attributable to:			
– owners of the Company		(129,872)	438,390
– non-controlling interests		<u>–</u>	<u>(124)</u>
		<u>(129,872)</u>	<u>438,266</u>
Total comprehensive (expense) income attributable to:			
– owners of the Company		(129,849)	438,366
– non-controlling interests		<u>–</u>	<u>(124)</u>
		<u>(129,849)</u>	<u>438,242</u>
(Loss) earnings per share			
– basic	9	<u>(0.43) HK cent</u>	<u>2.19 HK cents</u>
– diluted	9	<u>N/A</u>	<u>2.19 HK cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2016	As at 31 December 2015
	<i>NOTES</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	67,249	79,450
Investment properties	11	111,976	116,576
Deposit placed for a life insurance policy	12	–	16,907
Deposits paid for acquisition of property, plant and equipment		–	900
		<b>179,225</b>	213,833
<b>Current assets</b>			
Inventories		485,065	657,436
Trade and other receivables	12	415,591	432,186
Pledged bank deposits		204,157	954,471
Bank balances and cash		110,632	75,631
		<b>1,215,445</b>	2,119,724
<b>Current liabilities</b>			
Trade and other payables	13	109,119	176,658
Obligations under finance leases		394	126
Bank borrowings	14	336,073	1,440,868
Bonds	15	132,200	123,746
Derivative financial instruments	16	–	29,300
Taxation payable		43,924	43,623
		<b>621,710</b>	1,814,321
<b>Net current assets</b>		<b>593,735</b>	305,403
<b>Total assets less current liabilities</b>		<b>772,960</b>	519,236

		As at 30 June 2016	As at 31 December 2015
	<u>NOTES</u>	<u>HK\$'000</u> (unaudited)	<u>HK\$'000</u> (audited)
<b>Non-current liabilities</b>			
Obligations under finance leases		–	349
Deferred tax liabilities		<u>8,145</u>	<u>8,621</u>
		<u>8,145</u>	<u>8,970</u>
<b>Net assets</b>		<u><b>764,815</b></u>	<u>510,266</u>
<b>Capital and reserves</b>			
Share capital	17	<b>60,016</b>	20,016
Reserves		<u>701,923</u>	<u>487,374</u>
Equity attributable to owners of the Company		<b>761,939</b>	507,390
Non-controlling interests		<u>2,876</u>	<u>2,876</u>
<b>Total equity</b>		<u><b>764,815</b></u>	<u>510,266</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 June 2016*

## 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 the Cayman Islands. The Company's immediate and ultimate holding company is Super Generation Group Limited ("Super Generation"), a company incorporated in the British Virgin Islands. Super Generation is directly wholly owned by Mr. George Lu. The address of the Company's registered office is P.O. Box 2681, Cricket Square, Hutchins Drive, 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 is an investment holding company. The principal activities of its subsidiaries are sourcing, wholesale and retail 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.

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 (the "Listing Rules").

## 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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

## 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 segments and to assess its performance which focus on the different types of product. 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 and as follows:

- (i) Cultivated American ginseng ("Cultivated ginseng");
- (ii) Wild American ginseng ("Wild ginseng");
- (iii) Ginseng wine;
- (iv) Others: trading of other foods (including dried cordyceps, dried cubilose and dried seafood).

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

	<b>Six months ended 30 June</b>			
	<b>Segment revenue</b>		<b>Segment results</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HK\$'000</b>	<i>HK\$'000</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(unaudited)	<b>(unaudited)</b>	(unaudited)
Cultivated ginseng	<b>188,661</b>	944,545	<b>18,191</b>	279,080
Wild ginseng	<b>54,498</b>	38,469	<b>2,802</b>	16,077
Ginseng wine	<b>255</b>	260,464	<b>190</b>	232,259
Others	<b>575</b>	1,692	<b>203</b>	245
	<b>243,989</b>	1,245,170	<b>21,386</b>	527,661
(Loss) gain on disposal of property, plant and equipment			<b>(1,544)</b>	439
Change in fair value of investment properties			<b>(4,600)</b>	1,638
Write down on inventories			<b>(56,643)</b>	–
Exchange (loss) gain			<b>(38,193)</b>	35,019
Other income, gains and losses			<b>9,185</b>	25,669
Unallocated expenses			<b>(40,494)</b>	(49,154)
Finance costs			<b>(15,002)</b>	(20,209)
Impairment loss on property, plant and equipment			<b>(8,216)</b>	–
Gain on change in fair value of financial assets/ liabilities classified as derivative financial instrument			<b>4,249</b>	–
(Loss) profit before taxation			<b>(129,872)</b>	521,063

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

Segment profit during the period represents the profit earned by each segment without allocation of (loss) gain on disposal of property, plant and equipment, change in fair value of investment properties, write down on inventories exchange (loss) gain, other income, gains and losses, impairment loss on property, plant and equipment, gain on change in fair value of financial assets/liabilities classified as derivative financial instrument, unallocated corporate 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 and liabilities**

No segment assets and segment liabilities and other segment information 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.

#### 4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest income on bank deposits	4,916	24,242
Rental income	1,532	1,270
Exchange (loss) gain, net	(38,193)	35,019
(Loss) gain on disposal of property, plant and equipment	(1,544)	439
Write down on inventories	(56,643)	–
Impairment loss on property, plant and equipment	(8,216)	–
Gain on change in fair value of financial assets/liabilities classified as derivate financial instrument	4,249	–
Sundry income	2,737	157
	<u>(91,162)</u>	<u>61,127</u>

#### 5. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on:		
Bank loans and overdrafts	11,036	18,738
Bonds	3,966	1,456
Finance leases	–	15
	<u>15,002</u>	<u>20,209</u>

#### 6. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	3,045	1,892
Operating lease rental in respect of office premises and warehouses	3,142	1,494
	<u>6,187</u>	<u>3,386</u>

#### 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The taxation comprises:		
Hong Kong Profits Tax:		
Current period	–	82,797
	<u>–</u>	<u>82,797</u>

## 8. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Dividend recognised as distribution during the period:		
Final dividend for the year ended 31 December 2014 ( <i>Note a</i> )	–	40,000
Special dividend for the year ended 31 December 2014 ( <i>Note b</i> )	–	60,000
	<u>–</u>	<u>100,000</u>

### Notes:

- (a) During the six month ended 30 June 2015, the Directors declared the payment of a final dividend of HK\$0.02 per share (representing HK\$0.002 per share after the adjustment of share sub-division on 26 May 2015) amounting to HK\$40,000,000 for the year ended 31 December 2014.
- (b) A special dividend of HK\$0.03 per share (representing HK\$0.003 after the adjustment the share sub-division on 26 May 2015) amounting to HK\$60,000,000 in aggregate for the year ended 31 December 2014.

No dividend has been proposed by the Directors subsequent to the end of the reporting period.

## 9. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>(Loss) earnings</b>		
(Loss) earnings for the purpose of basic (loss) earnings per share		
((Loss) profit for the year attributable to owners of the Company)	<u>(129,872)</u>	<u>438,390</u>
	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>'000</b>	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b>29,906,310</b>	20,000,000
Effect of dilutive potential ordinary shares issuable under the Company's share option scheme	N/A	<u>547,533</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	<u>20,547,533</u>



The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2015 has been retrospectively adjusted to reflect the share sub-division on 26 May 2015.

The computation of diluted loss per share for six months ended 30 June 2016 does not assume the exercise of outstanding share options of the Company since their assumed exercise would result in a decrease in loss per share.

## **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 HK\$nil (six months ended 30 June 2015: approximately HK\$35,195,000) and other property, plant and equipment of approximately HK\$1,124,000 (six months ended 30 June 2015: approximately HK\$2,522,000). Part of the consideration of approximately HK\$900,000 were settled through deposits paid in prior year (six months ended 30 June 2015: approximately HK\$7,180,000).

Also, during the period, the Group disposed of certain property, plant and equipment with the aggregate carrying amount of approximately HK\$2,064,000 (six months period ended 30 June 2015: HK\$1,701,000) which was settled in cash amounting to HK\$520,000 (six months ended 30 June 2015: HK\$2,140,000), and resulting in a loss on disposal of approximately HK\$1,544,000 (six months ended 30 June 2015: gain on disposal of approximately HK\$439,000).

## **11. INVESTMENT PROPERTIES**

The fair value of the Group's investment properties at 30 June 2016 and 31 December 2015 was approximately HK\$111,976,000 and HK\$116,576,000 respectively.

During the six months ended 30 June 2015, the Group acquired investment properties of approximately HK\$27,284,000, which resulted from the acquisition of Luck Power (Hong Kong) Limited ("LPHK") and Luck Power Development Limited ("LPDL"). Major assets of LPHK and LPDL are land and building situated in Hong Kong under medium-term leases and do not have any operation, which did not constitute a business combination in accordance with HKFRS 3 "Business combinations". As such, the acquisition has been accounted for acquisition of assets and liabilities through acquisition of a subsidiary. In addition, the Group also transferred properties with carrying amount of HK\$3,000,000 which approximates the fair value at the date of transfer from property, plant and equipment to investment properties during the six months ended 30 June 2015. There were no acquisition of investment properties or transfer between property, plant and equipment and investment properties during the six months ended 30 June 2016.

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 and 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 and adjusted to reflect the conditions of the subject properties including property size and property floor level. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The resulting decrease in fair value of the investment properties of approximately HK\$4,600,000 has been recognised directly in profit or loss for the six months ended 30 June 2016 (six months ended 30 June 2015: increase in fair value of approximately HK\$1,638,000).

## 12. TRADE AND OTHER RECEIVABLES/PREPAYMENT

	As at 30 June 2016 <i>HK\$'000</i> (unaudited)	As at 31 December 2015 <i>HK\$'000</i> (audited)
Life insurance product		
– Non-current portion ( <i>Note a</i> )	–	16,907
Trade receivables	<b>624,531</b>	615,475
Less: Provision for discounts and rebates ( <i>Note b</i> )	<b>(351,001)</b>	(352,000)
	<b>273,530</b>	263,475
Deposit paid for purchase of ginseng	<b>111,575</b>	133,179
Advances to a bulk exporter ( <i>Note c</i> )	–	6,681
Other refundable deposit ( <i>Note d</i> )	<b>17,408</b>	24,400
Interest receivables	<b>4,645</b>	2,160
Prepayments and other deposits	<b>8,433</b>	2,291
	<b>142,061</b>	168,711
Total trade and other receivables	<b>415,591</b>	432,186

### Notes:

- (a) In August 2015, the Company's subsidiary, Hang Fat Ginseng Trading Company Limited ("HFG Trading"), entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the beneficiary and policy holder is HFG Trading and the total insured sum is US\$6,000,000 (approximately HK\$46,500,000), HFG Trading is required to pay an upfront deposit of US\$2,586,000 (approximately HK\$20,061,000) including a premium charge at inception of the policy amounting to US\$500,000 (approximately HK\$3,875,000). HFG Trading can terminate the policy at any time and receive cash based on the cash value of the policy at the date of withdrawal which is determined by the upfront deposit payment of US\$2,586,000 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge ("Cash Value"). In addition, if withdrawal is made between the 1st to 29th policy year, there is a specified percentage of surrender charge. At the inception date, the upfront payment is separated into deposit placed and prepayment of life insurance premium. The prepayment of life insurance premium is amortised to profit or loss over the insured period and the deposit placed is carried at amortised cost using the effective interest method. The insurance company will pay HFG Trading a guaranteed interest rate of 3.65% per annum on the outstanding Cash Value of the policy for the first year. Commencing on 2nd year, the guaranteed interest will become 1.8% per annum plus a premium determined by the insurance Company on an annual basis.

The carrying amount of the life insurance product as at 31 December 2015 approximates the Cash Value of the insurance policy and the expected life of the policy remained unchanged from the initial recognition.

The life insurance product is denominated in US\$, currency other than the functional currency of the respective group entity.

The life insurance product was assigned to a bank to secure general banking facilities granted to the Group during the year ended 31 December 2015. During the six months ended 30 June 2016, the life insurance product has been cancelled and used for repayment of bank borrowings.

- (b) During the year ended 31 December 2015, the Directors considered the amount to be recognised as revenue for the sale of the ginseng to the customers should be adjusted to take account of the foreseeable discounts and rebates. In making the judgement, the Directors reconsidered the requirement set out in HKAS18 Revenue and, in particular, that the Group should measure revenue at the fair value of the estimated consideration received or receivable taking into account the amount of any discounts and rebates allowed by the Group. Accordingly, following a detailed assessment, the Directors made a provision for discounts and rebates in the consolidated financial statements for the year ended 31 December 2015.

In the opinion of the Directors, the provision for discounts and rebates represents their assessments based on the information available and current circumstances. The provision for discounts and rebates calculated by the Directors was based on a number of assumptions including an assessment of the profitability of the customers resuming payments, an estimate of the potential timing of these payments and the possibility that the customers will seek to agree alternative settlement plans, taking into account of the Group's circumstance.

During the six months ended 30 June 2016, a provision for discounts and rebates of HK\$999,000 was reversed and credited in the profit or loss.

- (c) Amount represented advances paid to a bulk exporter for purchase deposits to be paid on behalf of the Group to other suppliers.
- (d) On 19 November 2015, the Group entered into a non-legally binding memorandum of understanding ("MOU") in relation to the proposed acquisition of a target group ("Proposed Acquisition"). Details of which has been disclosed in the Company's announcement on the same date. In respect of the Proposed Acquisition, the Group has paid a refundable deposit in the amount of RMB20,000,000 (approximately HK\$24,400,000) as part of the consideration of the Proposed Acquisition.

During the six months ended 30 June 2016, the MOU lapsed and the vendor has to refund the deposit to the Company.

The Group generally grants credit periods ranging from 30 days to 365 days (2015: 30 days to 365 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, which approximates the respective revenue recognition dates, at the end of each reporting period:

	<b>As at 30 June 2016 HK\$'000 (unaudited)</b>	As at 31 December 2015 HK\$'000 (audited)
Within 30 days	<b>119</b>	72,254
31 to 90 days	<b>104</b>	18,897
91 to 180 days	<b>146,031</b>	17,907
181 days to 365 days	<b>113,724</b>	154,417
Over 365 days	<b>13,552</b>	–
	<b><u>273,530</u></b>	<u>263,475</u>

The following is an aged analysis of trade receivables (net of discounts and rebates) which are past due but not impaired:

	As at <b>30 June</b> <b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	As at 31 December 2015 <i>HK\$'000</i> (audited)
181 days to 365 days	–	18,210
Over 365 days	<u>13,552</u>	<u>–</u>
	<u><b>13,552</b></u>	<u><b>18,210</b></u>

### 13. TRADE AND OTHER PAYABLES

	As at <b>30 June</b> <b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	As at 31 December 2015 <i>HK\$'000</i> (audited)
Trade payables	<b>50,362</b>	157,844
Other payables		
– Customer's deposit received	<b>45,436</b>	–
– Accrued expenses	<b>4,373</b>	11,767
– Rental deposit	<b>527</b>	527
– Freight charges	<b>6,277</b>	4,287
– Others	<u><b>2,144</b></u>	<u>2,233</u>
	<u><b>109,119</b></u>	<u><b>176,658</b></u>

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

	As at <b>30 June</b> <b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	As at 31 December 2015 <i>HK\$'000</i> (audited)
Within 30 days	–	137,673
31 to 90 days	–	3,978
91 to 180 days	<b>1,616</b>	10,556
180 to 360 days	<u><b>48,746</b></u>	<u>5,637</u>
	<u><b>50,362</b></u>	<u><b>157,844</b></u>

## 14. BANK BORROWINGS

	As at 30 June 2016 <i>HK\$'000</i> (unaudited)	As at 31 December 2015 <i>HK\$'000</i> (audited)
Bank overdrafts – secured	<u>315</u>	<u>1</u>
Bank loans		
– Trust receipts loans	64,347	409,540
– Mortgage loans	34,863	37,327
– Revolving loans	227,704	944,000
– Other bank loans	<u>8,844</u>	<u>50,000</u>
	<u>335,758</u>	<u>1,440,867</u>
<b>Secured borrowings</b>	<u><b>336,073</b></u>	<u><b>1,440,868</b></u>
Carrying amount repayable within one year*	<b>336,073</b>	409,540
Carrying amount of bank loans that are repayable within one year and contain a repayment on demand clause	–	990,604
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)	–	40,724
Less: Amounts due within one year shown under current liabilities	<u>(336,073)</u>	<u>(1,440,868)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>–</u>

\* 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 bank loans are as follows:

	As at 30 June 2016 <i>HK\$'000</i> (unaudited)	As at 31 December 2015 <i>HK\$'000</i> (audited)
Variable-rate loans	<u><b>1.19%-3.75%</b></u>	<u>1.19-3.75%</u>

The Group has pledged buildings, investments properties and bank deposits having a carrying value of approximately HK\$405,475,000 at 30 June 2016 (HK\$1,144,296,000 at 31 December 2015) to secure general banking facilities granted to the Group. The banking facilities were also supported by corporate guarantee of the group entities.

## 15. BONDS

	As at 30 June 2016 <i>HK\$'000</i> (unaudited)	As at 31 December 2015 <i>HK\$'000</i> (audited)
Carrying amount repayable		
More than two years, but not more than five years	132,200	132,200
Less: Direct issue cost	–	(8,454)
	<u>132,200</u>	<u>123,746</u>

On 24 April 2015, the Company completed the issuance of the unsecured bonds in an aggregate amount of HK\$132,200,000, which is due on 24 October 2018. The bonds carry fixed interest rate of 6.0% per annum, payable semi-annually in arrears.

At any time following the occurrence of a change of control with respect to the Company, the holder of any bond will have the right, at such holder's option, to require the Company to redeem all, but not some only, of such holder's bonds at 100% of their principal amount, together with accrued interest. The bonds are classified as current liabilities taking into account the breach of the covenant.

The net proceeds from the issuance of bonds are intended to be used by the Group to satisfy the general working capital to support the expansion of the Group's business.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

### Currency Derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group utilises a variety of forward foreign exchange contracts to manage its exchange rate exposures. The instruments adopted are primarily to hedge the currencies used in the Group's principal markets.

During the current interim period, a gain from forward foreign exchange contracts of HK\$4,249,000 (Six months ended 30 June 2015: nil) was recognised in profit or loss and included in other income, gains and losses.

As at 31 December 2015, notional amount of major outstanding forward foreign exchange contracts that the Group has committed are as below:

	As at 30 June 2016 <i>US\$'000</i> (unaudited)	As at 31 December 2015 <i>US\$'000</i> (audited)
Sell US\$/Buy CAD at rate from 1.3159 to 1.3386	–	84,000

As at 31 December 2015, the fair value of the Group's currency derivatives is estimated to be approximately HK\$29,300,000 liabilities (30 June 2016: nil), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates at the end of the reporting period. The contracts outstanding as at 31 December 2015 mainly related to buying of CAD with maturities in the first quarter of 2016.

## 17. SHARE CAPITAL

	<i>Notes</i>	<b>Nominal value per share HK\$</b>	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
Ordinary shares				
Authorised:				
At 1 January 2015		0.01	5,000,000	50,000
Share sub-division and increase in authorised share capital	<i>(a)</i>	–	<u>45,000,000</u>	<u>–</u>
At 31 December 2015		0.001	50,000,000	50,000
Increase in authorised share capital	<i>(b)</i>	0.001	<u>150,000,000</u>	<u>150,000</u>
At 30 June 2016		0.001	<u><u>200,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:				
At 1 January 2015		0.01	2,000,000	20,000
Share sub-division	<i>(a)</i>	–	18,000,000	–
Exercise of share options	<i>(c)</i>	0.001	<u>16,200</u>	<u>16</u>
At 31 December 2015		0.001	20,016,200	20,016
Issue of new shares upon the subscription	<i>(d)</i>	0.001	31,200,000	31,200
Issue of new shares upon placing	<i>(e)</i>	0.001	<u>8,800,000</u>	<u>8,800</u>
At 30 June 2016		0.001	<u><u>60,016,200</u></u>	<u><u>60,016</u></u>

### *Notes:*

- (a) On 26 May 2015, the Company had completed a capital reorganisation in which each of the existing issued and unissued shares of HK\$0.01 each in the share capital of the Company has been subdivided into 10 subdivided shares of par value of HK\$0.001 each. Following the effective date of the share sub-division, the authorised share capital of the Company becomes HK\$50,000,000 representing 50,000,000 subdivided shares of HK\$0.001 each, of which 20,000,000,000 subdivided shares are in issue and fully paid.
- (b) On 6 May 2016, the Company had increased the authorised share capital from HK\$50,000,000 divided into 50,000,000,000 Shares to HK\$200,000,000 divided into 200,000,000,000 Shares.
- (c) A total of 16,200,000 share options were exercised during the year ended 31 December 2015.
- (d) On 17 May 2016, 31,200,000,000 ordinary shares of HK\$0.001 each of the Company were duly allotted and issued to a subscriber, an independent third party, at the subscription price of HK\$0.01 per share. Details please refer to the announcement of the Company dated 17 May 2016.
- (e) On 17 May 2016, the Company completed the placing while 8,800,000,000 ordinary shares of HK\$0.001 each of the Company were duly allotted and issued to not less than six places, independent third parties, at the placing price of HK\$0.01 per share. Details of which please refer to the announcement of the Company dated 17 May 2016.

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

## 18. CAPITAL COMMITMENTS

	As at <b>30 June</b> <b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	As at 31 December 2015 <i>HK\$'000</i> (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	—	1,555

## 19. SUBSEQUENT EVENTS

- (a) On 7 July 2016, the share consolidation (“**Share Consolidation**”) in which every four (4) of the existing issued and unissued shares of HK\$0.001 each in the share capital of the Company has been consolidated into 1 consolidated shares of par value of HK\$0.004 each has become effective; and the authorised share capital of the Company becomes HK\$200,000,000 representing 50,000,000,000 consolidated shares of HK\$0.004 each, of which 15,004,050,000 consolidated shares are in issue and fully paid.
- (b) On 15 August 2016, the Company completed the placing while 1,000,000,000 ordinary shares of HK\$0.004 each (after the Share Consolidation) of the Company were duly allotted and issued to not less than six placees, independent third parties, at the placing price of HK\$0.127 per share. Details of which please refer the announcement of the Company date 15 August 2016.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in sourcing cultivated American ginseng and wild American ginseng (collectively, the “**American Ginseng**”) from Canada and the United States and selling American Ginseng to the second level wholesaler in Hong Kong, China and overseas.

In 2016, the global economy continued to slowdown, and China was experiencing continuous adjustment of economic structure with changes in mode of economic growth and slowdown in growth of gross domestic product. Under such adverse economic situation, there were numerous challenges in the health care product industry in China. In view of such market condition, the Group focused on enhancing operation efficiency and cost control measures. The Group continues to monitor the market trends and take prompt actions to adjust its business and operation plan under different market conditions.

### Revenue

	For the six months ended 30 June				
	2016		2015		Change in revenue (approximate %)
Revenue <i>HK\$'million</i>	% of total	Revenue <i>HK\$'million</i>	% of total		
Cultivated ginseng	188.7	77.4%	944.5	75.9%	-80.0%
Wild ginseng	54.5	22.3%	38.5	3.1%	+41.6%
Ginseng wine	0.3	0.1%	260.5	20.9%	-99.9%
Others	0.5	0.2%	1.7	0.1%	-70.6%
<b>TOTAL</b>	<b>244.0</b>	<b>100%</b>	<b>1,245.2</b>	<b>100%</b>	<b>80.4%</b>

During the six months ended 30 June 2016, the Group’s overall revenue amounted to approximately HK\$244.0 million, representing a decrease of approximately 80.4% compared with the same of last period. The main reason for the decline was that only minimal revenue was generated from sales of ginseng wine and there was a decrease in sales of American Ginseng.

### American Ginseng

During the six months ended 30 June 2016, the Group’s revenue from sales of American Ginseng amounted to an aggregate of approximately HK\$243.2 million, representing a decrease of approximately 75.3% compared with the same of last period. Persistent slowdown in economy causing decrease in sales orders which negatively affects the revenue on American Ginseng. In addition, the publication of the announcements of the Company regarding the change in control of the Company during the Interim Period, have caused a turbulence in the American Ginseng market and affected the price of the American Ginseng as well. Customers of the Group have been conscious of the American Ginseng trading under such unstable market.

## **Ginseng wine**

During the six months ended 30 June 2015, the Group's revenue generated from ginseng wine amounted to approximately HK\$260.5 million. However, due to the deterioration of the "Hang Fat Brand" in February 2016, as disclosed in the announcement of the Company dated 9 March 2016, a notice of request of bulk returning of ginseng wine was received by the Group from one of its customers on 8 March 2016, amounting to a total sales amount of approximately HK\$188.8 million. The revenue was not recognised for the year ended 31 December 2015. During six months ended 30 June 2016, revenue derived from sales ginseng wine was approximately HK\$0.3 million. The Group is actively seeking new channels to sell ginseng wine as well as the returned batch of ginseng wine, whether through retailers or wholesalers.

## **Gross profit**

The gross profit decreased to approximately HK\$21.4 million in the first half of 2016, which accounted for approximately 95.9% decrement as compared with that of the same period in 2015. The gross profit margin decreased from approximately 42.4% to approximately 8.8% in the Interim Period. The decrement was mainly attributable to the decrease in gross profit from sales of American Ginseng and the decrease in sale of the high profit margin product, i.e. ginseng wine.

## **Loss for the period**

Loss for the six months ended 30 June 2016 was mainly attributable to:

- (i) provision for stock of approximately HK\$56.6 million (six months ended 30 June 2015: nil);
- (ii) foreign exchange loss of approximately HK\$38.2 million mainly arising from depreciation of Renminbi ("RMB") (six months ended 30 June 2015: exchange gain of approximately HK\$35.0 million);
- (iii) impairment loss on property, plant and equipment of approximately HK\$8.2 million (six months ended 30 June 2015: nil); and
- (iv) loss on changes in fair value of the investment properties of approximately HK\$4.6 million was recognised for the six months ended 30 June 2016 (six months ended 30 June 2015: gain on changes in fair value of approximately HK\$1.6 million).

## **Inventories**

The Group's inventories as at 30 June 2016 was approximately HK\$485.1 million (net of write down on inventories) (as at 31 December 2015: approximately HK\$657.4 million). The inventories of the Group were stated at lower of cost or net realisable value. With the lower of subsequent selling price of the cultivated American ginseng, thus, a write down of inventories of approximately HK\$56.6 million has been recognised for the six months ended 30 June 2016.

## **Trade receivables**

The Group's trade receivables as at 30 June 2016 increased to approximately HK\$624.5 million from approximately HK\$615.5 million as at 31 December 2015. The Group's trade receivables, net of provision of sales discount and rebates, as at 30 June 2016 was approximately HK\$273.5 million (31 December 2015: approximately HK\$263.5 million). During the six months ended 30 June 2016, a total of approximately HK\$183.7 million was received from the customers for settlement of trade receivables. The management will continue to monitor the creditworthiness of customers, recoverability and ages of every individual case of trade receivables. The management will make its best endeavour to negotiate with its customers to collect the account receivables. The Group is prepared to take legal actions against the customers whenever necessary.

## **FOREIGN EXCHANGE EXPOSURE**

The Group faces foreign exchange risk as certain cash and cash equivalents are denominated in foreign currencies. The reporting currency is Hong Kong dollars ("HKD") and the sales of the Group are mainly denominated in HKD and RMB and the Group receives all its trade receivables from customers in HKD. 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. For the six months ended 30 June 2016, the Group incurred a loss of foreign exchange differences amounted to approximately HK\$38.2 million (six months ended 30 June 2015: a gain of foreign exchange differences amounted to approximately HK\$35.0 million). The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group utilises a variety of forward foreign exchange contracts to manage its exchange rate exposures. During the six months ended 30 June 2016, a gain from forward foreign exchange contracts of approximately HK\$4.2 million (six months ended 30 June 2015: nil) was recognised. The Board will continuously monitor the foreign exchange exposure and will consider hedging of foreign currency risk should the need arise.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

During the six months ended 30 June 2016, the Group incurred a loss of approximately HK\$129.8 million.

As at 30 June 2016, cash and cash equivalents of the Group amounted to approximately HK\$314.8 million (31 December 2015: approximately HK\$1,030.1 million), and the Group's net assets amounted to approximately HK\$764.8 million (31 December 2015: approximately HK\$510.3 million).

During the six months ended 30 June 2016, the Group had settled a total of HK\$1,130.1 million bank loans. The Group had interest-bearing bank loans of approximately HK\$336.0 million as at 30 June 2016 (31 December 2015: HK\$1,440.9 million).

The Group's borrowings also included the 6% coupon rate bonds issued by the Company with outstanding principal totaling HK\$132.2 million (net of direct issue cost) (31 December 2015: HK\$123.7 million) as at 30 June 2016 which is due in 2018. However, at any time following the occurrence of a change of control with respect of the Company, the holder of any bond will have the right, at such holder's option, to require the Company to redeem all, but not some only, of such holder's bonds at 100% of their principal amount, together with accrued interest. As at the date of this announcement, we are still actively negotiating with the holders of the bonds regarding the redemption matters.

The net gearing ratio of the Group as at 30 June 2016, calculated as aggregate of bank borrowings and bonds, net of pledged bank deposit, short-term bank deposits and bank balances and cash, divided by total equity, was approximately 20.1% (31 December 2015: 104.8%).

### **CHARGE OF ASSETS**

Certain borrowings were secured by the Group's buildings, investment properties and bank deposits, having a carrying value of approximately HK\$405.5 million.

### **CAPITAL EXPENDITURE**

No capital expenditure of the Group was noted as at 30 June 2016 (31 December 2015: approximately HK\$1.6 million, which was mainly used in acquisition of office premises for the Group's self-use).

### **CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 30 June 2016 and 31 December 2015.

### **SUBSEQUENT EVENTS**

On 7 July 2016, the share consolidation ("**Share Consolidation**") in which every four (4) of the existing issued and unissued shares of HK\$0.001 each in the share capital of the Company has been consolidated into 1 consolidated share of par value of HK\$0.004 each has become effective; and the authorised share capital of the Company has become HK\$200,000,000 representing 50,000,000,000 consolidated shares of HK\$0.004 each, of which 15,004,050,000 consolidated shares are in issue and fully paid.

On 15 August 2016, the Company completed the placing while 1,000,000,000 ordinary shares of HK\$0.004 each (after the Share Consolidation) of the Company were duly allotted and issued to not less than six placees, independent third parties, at the placing price of HK\$0.127 per share. Details of which please refer the announcement of the Company date 15 August 2016.

## **LOOKING AHEAD**

Facing the challenging market environment, the Group will continue the trading of American Ginseng with a cautious approach. The Directors consider that, although the Group's reputation, business operations and financial performance were temporarily and adversely affected, given its leading position in the ginseng market and experienced management team of the Group, the Group can remain competitive in the future.

The Board will continue to make its best effort to develop current businesses and at the same time proactively exploring new business areas and seek for suitable investment opportunities.

Besides, the Group will continue to strictly control risks, strengthen internal management, integrate dominant resources and develop a cautious investment strategy in order to create a better return for its shareholders.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2016.

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

During the six months ended 30 June 2016, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **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. During the six months ended 30 June 2016, 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 provisions A.2.1 and A.5.1, as more particularly described below.

### *CG Code provision A.2.1*

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 (i) Mr. Yeung Wing Yan (who resigned as an executive Director on 5 July 2016) during the period between 1 January 2016 and 16 May 2016; and (ii) Mr. George Lu since 17 May 2016. The Board considers that for the period between 1 January 2016 and 16 May 2016, 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. In respect of the period from 17 May 2016 to 30

June 2016, having considered (i) the change of control of the Company in May 2016; and (ii) the Board's strategy to (a) continue the trading of American Ginseng with a cautious approach; and (b) explore new business areas and seek for suitable investment opportunities, the Board considers that it would be beneficial to the Group for Mr. George Lu to assume both roles as the chairman and the chief executive officer of the Company, since, as abovementioned, the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's 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 (during the period between 1 January 2016 and 16 May 2016) and Mr. George Lu since 17 May 2016.

#### *CG Code provision A.5.1*

CG Code provision A.5.1 stipulates that the number of independent non-executive directors shall represent the majority of the nomination committee.

During the period between 22 February 2016 and 29 February 2016, due to the resignation of an independent non-executive Director, namely Mr. Cheung Chung Wai Billy, who was also then a member of the nomination committee of the Company, on 22 February 2016, the nomination committee of the Company then only consisted of one executive Director and one independent non-executive Director. Details of which please refer to the announcement of the Company dated 29 February 2016 (including non-compliance with Rules 3.10(1) and (2), 3.10A, 3.21 and 3.25 of the Listing Rules).

As Mr. Wu Wai Leung Danny was subsequently appointed as an independent non-executive Director, as well as, among others, a member of the nomination committee of the Company, on 29 February 2016 in order to replace the vacancy, such deviation from CG Code provision A.5.1 was rectified.

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 (the "**Model Code**") regarding securities transactions by Directors on terms no less exactly than the required standard set out in the Model Code for Securities Transactions by the Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, and that having made specific enquiry to all Directors, the Company confirms that, save and except the dealing in shares of the Company as disclosed in the announcements of 2 February 2016 and 1 March 2016, all Directors have complied with the Model Code during the six months ended 30 June 2016.

## **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. Yuen Chee Lap Carl (Chairman of the Audit Committee), Mr. Li Wei and Mr. Wu Wai Leung Danny.

By order of the Board  
**Hang Fat Ginseng Holdings Company Limited**  
**George Lu**  
*Chairman & Chief Executive Officer*

Hong Kong, 15 August 2016

*As at the date of this announcement, the executive Directors are Mr. George Lu, Mr. Yeung Wing Kong and Mr. Wong Kwok Ming; the non-executive Director is Ms. Shen Wei and the independent non-executive Directors are Mr. Li Wei, Mr. Wu Wai Leung Danny and Mr. Yuen Chee Lap Carl.*