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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

HK\$'000 (Audited)

	For the year ended 31 December		
	2014	2013	Changes (approximate %)
Revenue	1,219,651	762,970	59.9%
Gross Profit	302,460	179,424	68.6%
Net Profit for the year attributable to owners of the Company	205,353	128,613	59.7%
Adjusted Net Profit for the year* (excluding non-operating items)	219,930	127,560	72.4%
Gross Profit Margin	24.8%	23.5%	1.3%
Net Profit Margin	16.8%	16.9%	(0.1%)
Earnings per share – Basic	11.68 HK cents	8.57 HK cents	36.3%
Dividend per share			
– Paid interim dividend	5 HK cents	–	
– Proposed final dividend	2 HK cents	–	
– Proposed special dividend	3 HK cents	–	

* Adjusted net profit for the year means net profit for the year excluding the non-operating items. Non-operating items include changes in fair value of investment properties, rental income and listing expenses.

The board of directors (the “**Board**” or the “**Directors**”) of Hang Fat Ginseng Holdings Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**” or “**Hang Fat**”) for the year ended 31 December 2014 (the “**Year**”) together with comparative figures for the corresponding year in 2013 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

		Year ended 31 December	
		2014	2013
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,219,651	762,970
Costs of sales		(917,191)	(583,546)
Gross profit		302,460	179,424
Other income	4	8,765	1,926
Other gains and losses	4	(7,832)	7,071
Administrative expenses		(37,152)	(19,981)
Selling expenses		(6,957)	(3,635)
Listing expenses		(17,926)	(867)
Change in fair value of investment properties		1,400	–
Finance costs		(12,018)	(10,999)
Profit before taxation	5	230,740	152,939
Income tax expense	6	(25,416)	(24,326)
Profit and total comprehensive income for the year		205,324	128,613
Profit for the year and total comprehensive income for the year attributable to:			
– owners of the Company		205,353	128,613
– non-controlling interests		(29)	–
		205,324	128,613
Basic earnings per share	8	11.68 HK cents	8.57 HK cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

		As at 31 December 2014 HK\$'000	2013 HK\$'000
	NOTES		
Non-current assets			
Property, plant and equipment		39,809	14,317
Investment properties		88,400	87,000
Deposits paid for acquisition of property, plant and equipment		7,180	3,567
		<u>135,389</u>	<u>104,884</u>
Current assets			
Inventories		813,563	563,718
Trade and other receivables	9	651,243	86,942
Amount due from a director		–	197,187
Pledged bank deposits		1,417,950	12,758
Bank balances and cash		134,039	47,368
		<u>3,016,795</u>	<u>907,973</u>
Current liabilities			
Trade and other payables	10	360,766	362,556
Obligations under finance leases		1,100	1,331
Bank borrowings		1,646,071	361,717
Taxation payable		45,153	33,703
		<u>2,053,090</u>	<u>759,307</u>
Net current assets		<u>963,705</u>	<u>148,666</u>
Total assets less current liabilities		<u>1,099,094</u>	<u>253,550</u>
Non-current liabilities			
Obligations under finance leases		1,472	2,770
Deferred tax liabilities		8,580	8,580
		<u>10,052</u>	<u>11,350</u>
Net assets		<u>1,089,042</u>	<u>242,200</u>
Capital and reserves			
Share capital		20,000	1
Reserves		1,069,070	242,199
		<u>1,089,070</u>	<u>242,200</u>
Equity attributable to owners of the Company		(28)	–
Non-controlling interest			
Total equity		<u>1,089,042</u>	<u>242,200</u>

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and by the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair values. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied a number of amendments to HKFRSs issued by the HKICPA that are mandatorily effective for current reporting period.

The Group has applied the following new or revised HKFRSs issued by the HKICPA for the first time in the current year.

Application of new and revised Hong Kong Financial Reporting Standards

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK (IFRIC*) – Int 21	Levies

* IFRIC represents the International Financial Reporting Standards Interpretations Committee.

The application of the above new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 their performance which focus on different types 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**"); and (iii) Others: trading of other products (including dried cordyceps, dried cubilose and dried seafood).

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

	Segment revenue		Segment results	
	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2013 HK\$'000	Year ended 31 December 2014 HK\$'000	Year ended 31 December 2013 HK\$'000
Cultivated Ginseng	1,124,423	675,079	291,837	169,769
Wild Ginseng	92,739	50,799	9,328	7,975
Others	2,489	37,092	1,295	1,680
	<u>1,219,651</u>	<u>762,970</u>	<u>302,460</u>	<u>179,424</u>
Gain on disposal of property, plant and equipment			194	243
Changes in fair value of investment properties			1,400	—
Listing expenses			(17,926)	(867)
Other income			8,765	1,926
Unallocated corporate expenses			(44,109)	(23,616)
Exchange (loss) gain, net			(8,026)	6,828
Finance costs			(12,018)	(10,999)
Profit before taxation			<u>230,740</u>	<u>152,939</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the two years ended 31 December 2014 and 31 December 2013.

Segment profit during the year represents the profit earned by each segment without allocation of gain on disposal of property, plant and equipment, changes in fair value of investment properties, listing expenses, other income, unallocated corporate expenses such as central administrative expenses, exchange (loss) gain 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.

Geographical information

No geographical segment information is presented as the Group's revenue is all derived from Hong Kong based on the location of goods delivered, and the Group's property, plant and equipment and investment properties are all physically located in Hong Kong.

4. OTHER INCOME, GAINS AND LOSSES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
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Other income comprised the follows:

Interest income on bank deposits	6,793	6
Rental income	1,920	1,920
Sundry income	52	—
	<u>8,765</u>	<u>1,926</u>

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
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Other gains and losses comprised the follows:

Gain on disposal of property, plant and equipment	194	243
Exchange (loss) gain, net	(8,026)	6,828
	<u>(7,832)</u>	<u>7,071</u>

5. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration	8,328	5,015
Other staff costs	7,711	4,359
Retirement benefit scheme contributions for other staff	586	326
Total staff costs	16,625	9,700
Auditor's remuneration	1,250	1,000
Depreciation of property, plant and equipment	2,536	1,999
Operating lease rentals in respect of office premises	2,137	1,608
After crediting:		
Gross rental income from investment properties	1,920	1,920
Less: Direct operating expenses from investment properties during the year	(211)	(402)
Net rental income from investment properties	1,709	1,518

6. INCOME TAX EXPENSE

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000
The taxation comprises:		
Hong Kong Profits Tax:		
Current year	(42,261)	(26,564)
Overprovision in prior years	16,845	1,566
Deferred tax:		
Current year	0	672
	(25,416)	(24,326)

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

The taxation for the year is reconciled to profit per the consolidated statements of profit or loss and other comprehensive income as follows:

	2014 HK\$'000	2013 HK\$'000
Profit before taxation	230,740	152,939
Tax at the applicable income tax rate (16.5%)	(38,072)	(25,235)
Tax effect of expenses not deductible for tax purposes	(4,502)	(506)
Tax effect of income not taxable for tax purpose	1,121	–
Overprovision in respect of prior years (<i>Note</i>)	16,845	1,566
Tax effect of tax loss not recognised	(558)	(267)
Others	(250)	116
Taxation for the year	25,416	(24,326)

Note: Overprovision in respect of prior years mainly include reversal of provision on gain on disposal of a subsidiary of HK\$8,300,000 for the year of assessment of 2011/12 and of HK\$8,545,000 for the year of assessment of 2012/13, which are confirmed to be non-taxable pursuant to a notice issued by the relevant tax authority in 2014.

7. DIVIDENDS

Pursuant to a resolution passed at the Board meeting on 5 August 2014, the Directors declared the interim dividends for 2014 of HK\$0.05 (2013: Nil) per ordinary share totaling HK\$100,000,000 (2013: Nil).

Prior to the group restructuring, on 21 May 2014, the Group declared a dividend of HK\$210,000,000 to its then equity owners. The dividend was satisfied by the current account with a director.

The Directors proposed the payment of a final dividend of HK\$0.02 per share amounting to HK\$40,000,000 and a special dividend of HK\$0.03 per share amounting to HK\$60,000,000 in aggregate in respect of the year ended 31 December 2014 (2013: Nil), which is subject to approval of the shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December 2014 HK\$'000	2013 HK\$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	205,353	128,613

Number of shares	
Year ended 31 December	
2014	2013
'000	'000

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share

1,757,534	1,500,000
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The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2014 and 2013 has been retrospectively adjusted to reflect 1,499,000,000 shares issued upon capitalisation on 27 June 2014.

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

9. TRADE AND OTHER RECEIVABLES

	2014 HK\$'000	2013 HK\$'000
Trade receivables	<u>540,229</u>	<u>62,184</u>
Other receivables		
– Deposits paid for purchase of ginseng	105,657	21,626
– Prepayments and others	<u>5,357</u>	<u>3,132</u>
	<u>111,014</u>	<u>24,758</u>
Total trade and other receivables	<u>651,243</u>	<u>86,942</u>

The Group generally grants credit period 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, which approximates the respective revenue recognition dates at the end of each reporting period:

	2014 HK\$'000	2013 HK\$'000
Within 30 days	297,393	47,533
31 to 90 days	19,010	14,310
91 to 180 days	38,669	341
Over 180 days	<u>185,157</u>	<u>–</u>
	<u>540,229</u>	<u>62,184</u>

10. TRADE AND OTHER PAYABLES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade payables	316,874	296,108
Other payables		
– Customers' deposits received	250	58,509
– Accrued expenses	5,406	6,525
– Amount due to a bulk exporter (<i>Note</i>)	2,579	1,094
– Cash rebates from bank	35,170	–
– Rental deposit	320	320
– Others	167	–
	<hr/>	<hr/>
Total trade and other payables	<u>360,766</u>	<u>362,556</u>

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

The Group normally receives credit terms of 90 days to 150 days from its suppliers. The following is an aged analysis of trade payables based on invoice date at the end of each reporting period:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 to 30 days	310,972	290,319
31 to 90 days	3,023	5,786
91 to 180 days	2,879	–
Over 180 days	–	3
	<hr/>	<hr/>
	<u>316,874</u>	<u>296,108</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in sourcing Cultivated Ginseng and Wild Ginseng (collectively, the “American Ginseng”) from Canada and the United States and sell American Ginseng to the second level wholesaler in Hong Kong, China and overseas. The Group also operates two retail shops in Sheung Wan to provide knowledge of American Ginseng and retailing of American Ginseng to the general public consumers.

In 2014, China’s economy stabilised with positive growth momentum. As China embraces continuous rise in disposable income, accelerating urbanisation and aging demographics, the population attaches greater importance to health and quality of life, leading to the sustained demand for healthcare products, and in turn, a robust growth in the American Ginseng industry.

Through effective implementation of business strategies to capture the growing market in the American Ginseng industry, the Group achieved a strong revenue growth of approximately 59.9% over the same period last year.

For the year ended 31 December	2014		2013		Increase of revenue (approximate %)
	Revenue <i>HK\$ million</i>	% of total	Revenue <i>HK\$ million</i>	% of total	
Cultivated Ginseng	1,124.5	92.2%	675.1	88.5%	66.6%
Wild Ginseng	92.7	7.6%	50.8	6.7%	82.5%
Others	2.5	0.2%	37.1	4.8%	(93.3)%
TOTAL	1,219.7	100.0%	763.0	100.0%	59.9%

In the light of the continuous growth in demand for American Ginseng in recent years, Hang Fat was able to respond to the market quickly and effectively in order to capture the opportunities. It is the Group’s business strategy to ride on the robust demand growth in both Cultivated Ginseng and Wild Ginseng and extend its leading position in the American Ginseng market.

The Group’s 30-year reputation for providing quality American Ginseng is a key factor of the Group’s continued success. The Group was able to secure stable supply of quality American Ginseng from growers in Canada and pickers and dealers in the United States who support the Group’s growth in sales, capture the increasing demand for American Ginseng.

In 2014, Hang Fat gradually built up a vertical integrated business model on the sale of Wild Ginseng which allows the Group to have an effective and tight control over the entire value chain, from procurement of raw materials and marketing to sales through our wholesales and retail network. At the same time, Hang Fat continued to upgrade the positioning and branding of its Hang Fat brand profile. A new Wild Ginseng shop was opened in December 2014, which located in Sheung Wan. The Wild Ginseng headquarter focuses on selling high quality Wild Ginseng, which helps promote the knowledge and medicinal value of Wild Ginseng.

The inventory balance as at 31 December 2014 reached approximately HK\$813.6 million, increased by approximately 44.3% when compared with that as at 31 December 2013 (approximately HK\$563.7 million). The increase was mainly contributed by rising inventory level in both Cultivated Ginseng and Wild Ginseng, for the strategic purpose of increasing purchase quantities in harvest season (last quarter of the year) in 2014 in order to cope with the anticipation increasing sales order in 2015.

Hang Fat strived to optimise the market footprint, and expand sales channels and networks. Together with its consistently sound management and flexible market strategies, the Group further consolidated and strengthened the existing business base, which will continue to drive for further development.

FINANCIAL REVIEW

Revenue overview

The year ended 31 December 2014 was an exceptional year filled with excitement and endeavour to Hang Fat. The revenue for the year ended 31 December 2014 reached approximately HK\$1,219.7 million (2013: approximately HK\$763.0 million), representing an increase of approximately 59.9% over the same period last year.

Revenue by product

Sales of Cultivated Ginseng were still the major sources of revenue, accounting for approximately 92.2% of the Group's revenue in 2014 (2013: approximately 88.5%), which amounted to approximately HK\$1,124.5 million (2013: approximately HK\$675.1 million), representing an increment of approximately 66.6%. This was mainly attributable to (i) increase in average selling price by approximately 49.0% when comparing with the year ended 31 December 2013, as a result of the constant increase in demand for Cultivated Ginseng; (ii) the sales volume of Cultivated Ginseng for the year ended 31 December 2014 increased by approximately 11.8% when compared to that of the year ended 31 December 2013.

Sale of Wild Ginseng increased by approximately 82.5% to approximately HK\$92.7 million in 2014 when compared to the sale of Wild Ginseng in 2013 of approximately HK\$50.8 million. As a result the market demand and limited supply of Wild Ginseng and high perceived medicinal value, the Group considered it is the potential market for development, and it has devoted more effort on expansion of Wild Ginseng market in 2014. A Wild Ginseng headquarter shop was opened in December 2014 in Sheung Wan in order to cope with the Group's marketing strategy.

Gross profit

Gross profit for the year ended 31 December 2014 was approximately HK\$302.5 million, representing an increase of approximately 68.6% as compared with that for the corresponding period in 2013. The gross profit margin of the Group for the year ended 31 December 2014 was approximately 24.8%, representing an increase of approximately 1.3% from approximately 23.5% for the year ended 31 December 2013.

Expenses

For the year ended 31 December 2014, the Group's administrative expenses were approximately HK\$37.2 million, representing an increase of approximately 85.9% as compared with approximately HK\$20.0 million for the year ended 31 December 2013. The increase was mainly due to the rise of employees' compensation expenses, professional fee, rental expenses and depreciation expenses, resulting from business expansion.

For the listing expenses amounting to approximately HK\$17.9 million (2013: approximately HK\$0.9 million), it represented the one-off-expenses regarding the professional fee incurred related to the fund raising in the Company's initial public offering in 2014 (the "IPO").

Net profit and net profit margin

The net profit for the year attributable to the owners of the Company increased by approximately 59.7%, from approximately HK\$128.6 million in 2013 to approximately HK\$205.4 million in 2014, with net profit margin remained stable, which was approximately 16.8% in 2014 and approximately 16.9% in 2013.

Inventories

The inventories increased by approximately HK\$249.9 million or 44.3% from approximately HK\$563.7 million as at 31 December 2013 to approximately HK\$813.6 million as at 31 December 2014. The increase was primarily due to the increase in inventory level of both Cultivated Ginseng and Wild Ginseng. The Group increased the purchase of Cultivated Ginseng in anticipation of increasing sales order in 2015 and increased the purchase of Wild Ginseng as the Group has devoted more effort on expansion of Wild Ginseng market in coming future.

Trade receivables

The Group's trade receivables as at 31 December 2014 increased to approximately HK\$540.2 million from approximately HK\$62.2 million as at 31 December 2013. The Group's total receivables turnover days increased from 29 days to 90 days. The outstanding balances in the current to 90 days category, and over 91 days to 180 days category increased by approximately HK\$254.6 million and HK\$38.3 million respectively, due to the increase in sales in second half year of 2014 when comparing with that of 2013. Outstanding balances in the over 180 days to 1 year category increased by approximately HK\$185.2 million was mainly due to a slowdown in payments from certain major customers. As at the date of this announcement, approximately 81.7% of the outstanding balances in the over 180 days to 1 year category were received. 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 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 and the sales of the Group are mainly denominated in Hong Kong dollars and Renminbi (“**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 at 31 December 2014, the Group has approximately HK\$1,388.5 million RMB bank deposit (2013: Nil), which was also exposed to foreign exchange risk. As a result, the Group incurred transactional and translational foreign currency gains or losses from its operations. With the depreciation of CAD and RMB, the Group incurred a loss of foreign exchange differences amounted to approximately HK\$8.0 million for the 31 December 2014 (2013: a gain of foreign exchange differences amounted to approximately HK\$6.8 million). 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

The Company's treasury function formulated financial risk management procedures, which are also subject to periodic review by the senior management of the Company. This treasury function operates as a centralised service for managing financial risks, including interest rate and foreign exchange rate risks, reallocating surplus financial resources within the Group, procuring cost-efficient funding and targeting yield enhancement opportunities. The treasury function regularly and closely monitors its overall cash and debt positions, proactively reviews its funding costs and maturity profiles to facilitate timely refinancing, if appropriate.

As at 31 December 2014, the operating cash outflow was approximately HK\$620.5 million (2013: operating cash inflow was approximately HK\$48.1 million), such outflow was mainly due to increase in the purchase of Cultivated Ginseng and Wild Ginseng by the Group for strategic purpose of increasing the purchase quantities in harvest season (last quarter of the year) in 2014, in order to meet the anticipated increasing sales order in 2015. The Group's daily operation was mainly financed by operating cash flow, and relied on short-term borrowing to satisfy inventory financing needs during peak seasons, working capital for further expansion plans and unexpected needs.

As at 31 December 2014, cash and cash equivalents of the Group amounted to approximately HK\$1,552.0 million (2013: approximately HK\$60.1 million), and the Group's net current assets were approximately HK\$963.7 million (2013: approximately HK\$148.7 million). In 2014, the Group has net cash proceeds of approximately HK\$923.0 million raised from the IPO.

The Group had interest-bearing loans of approximately HK\$1,646.1 million (2013: 361.7 million), of which HK\$1,371.1 million (83.3%) was denominated in HKD, while HK\$214.0 million (13.0%) was denominated in CAD and the remaining HK\$61.0 million denominated in USD (3.7%).

The net gearing ratio of the Group as at 31 December 2014, calculated as aggregate of bank borrowing, net of pledged bank deposit, short-term bank deposits and bank balances and cash, divided by total equity, was approximately 8.6% (2013: 124.5%). The decrease in net gearing ratio as at 31 December 2014 was mainly due to an increase in the Group's total equity as a result of issue of new shares in the IPO.

CHARGE OF ASSETS

Certain borrowings were secured by the Group's buildings, investment properties and bank deposits, having a carrying value of approximately HK\$1,536.9 million.

CAPITAL EXPENDITURE

The capital expenditure of the Group was approximately HK\$29.0 million (2013: approximately HK\$1.8 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 31 December 2013 and 31 December 2014.

SUBSEQUENT EVENTS

In January 2015, the Company granted 112,100,000 share options to its employees and the Directors and their respective associates at an exercise price of HK\$1.88 per share with various vesting periods between January 2015 and January 2018. The Group is in the process of ascertaining the fair value of these share options.

On 19 January 2015, Sparkling Square Holdings Company Limited, a wholly owned subsidiary of the Company, acquired 100% equity interests of Luck Power (Hong Kong) Limited (“**LPHK**”) and 100% equity interests of Luck Power Development Limited (“**LPDL**”) from certain independent third parties for cash consideration of HK\$31,375,000 and HK\$31,375,000, respectively. Major assets of LPHK and LPDL are land and buildings situated in Hong Kong under medium-term leases and these acquisitions were funded by the Group’s internal generated working capital.

HUMAN RESOURCES

For the year ended 31 December 2014, the Group had 49 full-time employees (2013: 25). Total employee benefit expenses for the year ended 31 December 2014 was approximately HK\$16.6 million (2013: HK\$9.7 million). Employees are paid according to their position, performance, experience and prevailing market practices, and are provided with management and professional training. The Group has implemented a number of initiatives to enhance productivity of its employees. In particular, the Group conducts periodic performance reviews of most of the employees, and their compensation is tied to their performance. Further, the compensation structure is designed to incentivise the employees to perform well by linking a portion of their compensation to their performance. The performance-based portion depends on the employee’s job function and seniority.

Employees in Hong Kong are provided with retirement benefits under the Mandatory Provident Fund scheme, as well as medical insurance. The Company has adopted a share option scheme for the purpose of providing incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

PROSPECT AND STRATEGIES

Prospects

The Directors believe that the successful listing of the shares of the Company on the Main Board of the Stock Exchange on 27 June 2014 (the “**Listing Date**”) could enhance the Group’s profile and the net proceeds from the IPO will strengthen the Group’s financial position and enhance the Group to implement its business plan.

Going forward, the Group is optimistic about its prospect as well as the outlook of the markets in which it operates in the medium and long run. It has confidence in the economic development of China, and it believes Hong Kong can retain its leading role as the important hub for distribution of American Ginseng.

The Group believes, with the increase in health concerns, the demand for American Ginseng stay strong and popularity of ginseng related health care products will increase among not only the elderly but also the young.

Strategies

As the business expands and diversifies rapidly, the Group adopts a holistic approach to implementing its brand, product and network expansion strategies. The Group will continue to focus on expansion on the market share on wholesale of both Cultivated Ginseng and Wild Ginseng; explore the opportunities in expanding the product portfolio; further strengthen the brand recognition and expand the business operations both in China and overseas. The Group's strategy is to (1) continue to step up efforts in the procurement of Cultivated Ginseng and Wild Ginseng so as to increase the Group's market share in the American Ginseng market; (2) explore advanced approach to co-operate with the professionals and experts, so as to develop its owned branded products; and (3) to expand the distribution channels.

Step up efforts in procurement of American Ginseng

The Group continues building upon its network and relationships with the growers, pickers and exporters to maintain its leading position in securing stable supplies of quality American Ginseng. In addition, the Group seeks to strengthen its purchasing power for Wild Ginseng to further consolidate the Group's market share and attain a market leadership position in Wild Ginseng market. The Group will continue to train its staff to identify quality American Ginseng to ensure this knowledge is maintained and to sustain its success to quality supplies of American Ginseng going forward.

Brand uplifting and product portfolio enhancement

The Group is actively exploring co-operation opportunities with professors and experts to develop its branded products. It implements its market-driven product strategy through product diversification and differentiation. It continues to seek co-operation opportunities to develop its products to offer more choices of products from American Ginseng health care related products to Wild American Ginseng wine, to cover customers of different age group. In particular, it targets to launch a series of functional health care products in 2015 in response to the growing demand from the public on healthy awareness. The "Hang Fat Wild Ginseng Wine", a healthy wine, is a successful attempt to both Hong Kong and China market, which has been very well received by the customers.

Expand the distribution channel

In addition to its two retail stores, the Group intends to open a flagship shop in Beijing in order to build up the “Hang Fat” brand, which is targeted to be opened in the second quarter of 2015. The Group also intends to establish branches and offices in major cities across China, including Shenzhen and Shanghai, in order to emerge into the Mainland China market.

Other than the physical shop, it continues to develop e-commerce platform to distribute its products. The Group has a growing e-marketing team with staff members working in different regional offices. This enables the Group to communicate closely and interact timely with the locals, which is crucial to engagement, retain and growth of online customers and followers of the “Hang Fat” brand.

The management is optimistic as the business plan is moving ahead quite steadily on the right track, and various enterprises are attracted to conduct negotiation and cooperation with the Group due to its stable business development, so as to develop and distribute the Group’s products and expand sales channels.

The Group, as a leading American Ginseng wholesaler, is well positioned to benefit from the growth in the demand for health care related product. The Group has the ability to lead a deeper and broader integration of American Ginseng industry.

LISTING AND USE OF PROCEEDS

Upon listing on the Stock Exchange on 27 June 2014, the Company issued 500,000,000 new shares at the offer price HK\$1.98 per share, with the net proceeds amounting to approximately HK\$923.0 million after deducting the broker commissions and other fees and expenses payable by the Company for the global offering. As at 31 December 2014, the net proceeds from the IPO were used for the purposes which were consistent with those set out in the prospectus of the Company dated 17 June 2014. As at 31 December 2014, the net proceeds were used for the following purposes:

Use of proceeds	HK\$ million		
	Net Proceeds	Proceed used	% of Utilised
For purchase of Cultivated Ginseng and Wild Ginseng	646.1	435.9	67.5%
For repayment of certain outstanding bank loans	156.9	156.9	100.0%
For brand promotion	27.7	2.2	7.9%
For working capital	92.3	26.5	28.7%
Total	923.0	621.5	67.3%

As at 31 December 2014, the unused net proceeds were placed with banks in Hong Kong as short-term deposits or term deposits.

FINAL AND SPECIAL DIVIDEND

At the Board meeting held on 11 March 2015, the Directors proposed a final dividend of HK2 cents per share (2013: Nil), amounting to approximately HK\$40 million (2013: Nil) for the year ended 31 December 2014. In addition, in order to celebrate the 30th anniversary of the founding of Hang Fat and its predecessor, the Directors proposed a special dividend of HK3 cents per share (2013: Nil), amounting to approximately HK\$60 million (2013: Nil) at the same meeting. The proposed final dividend and the special dividend are subject to the approval by the shareholders of the Company at the forthcoming annual general meetings of the Company to be held on 22 May 2015 (the “**AGM**”), the proposed dividends will be payable on or about Wednesday, 22 July 2015 to the shareholders of the Company registered on the register of member of the Company (the “**Register of Members**”) on Thursday, 4 June 2015. The dividends have not yet been recognised in the liabilities in the financial statements.

CLOSURE OF REGISTERS OF MEMBERS

For the purpose of ascertaining right of the shareholders of the Company to attend and vote at the AGM, the Register of Members will be closed from Thursday, 21 May 2015 to Friday, 22 May 2015, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company’s Hong Kong branch registrar, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 20 May 2015.

Subject to the approval of the recommended final dividend and special dividend from the shareholders of the Company at the AGM, the final dividend and special dividend will be payable on or about Wednesday, 22 July 2015. In order to determine the entitlement to both the final dividend and special dividend for the year ended 31 December 2014, the Register of Members will be closed from Tuesday, 2 June 2015 to Thursday, 4 June 2015 (both dates inclusive), during which period no transfer of shares will be registered. In order to qualify for the both the final dividend and special dividend for the year ended 31 December 2014, all transfer documents accompanied by the relevant share certificate(s) 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 4:30 p.m. on Monday, 1 June 2015.

CORPORATE GOVERNANCE

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 and up to 31 December 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 separate 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 current combined role of Mr. Yeung Wing Yan.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 all Directors have complied with the Model Code during the period from the Listing Date and up to 31 December 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the Listing Date and up to 31 December 2014.

AUDIT COMMITTEE

The audit committee of the Board (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. 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 consolidated financial statements of the Group for the year ended 31 December 2014 with the Directors.

PUBLICATION OF THE ANNUAL RESULTS AND 2014 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the annual report of the Company for the year ended 31 December 2014 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

On behalf of the Board
Hang Fat Ginseng Holdings Company Limited
Mr. Yeung Wing Yan
Chairman and Chief Executive Officer

Hong Kong, 11 March 2015

As at the date of this announcement, the executive Directors are Mr. Yeung Wing Yan, Mr. Yeung Wing Kong and Ms. Fu Fung Sau; and the independent non-executive Directors are Mr. Wong Senta, Mr. Kwok Lam Kwong Larry and Mr. Cheung Chung Wai Billy.